The Institutional Strategist
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US MARKETS

Equity & Fixed Income Markets
Market Themes and Stocks

Featured This Month:

America's Equity Market

Deep(Seek) Selloff and DeepSeek Drama

US Currency Review

by TIS Group, Inc.
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PURPOSE:
The Institutional Strategist is a third party, independent, monthly publication, covering geonomics, global stock markets, interest rates, market themes, and currency trends. Our purpose is to present non-consensus, timely analysis designed to call major "turns" and to assess various forms of risks.

COVERAGE:
Each month we assess investment/economic risk across major asset classes, and major economies as well as selected emerging markets.

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US 10-Year Yields

Courtesy of Bloomberg LP

III. Equity Market

S&P 500 –Intermediate Term Model is Slightly Negative / Short Term is Negative

Courtesy of Bloomberg LP

IV. US Market Model.. 30

SUMMATION:

- **US Stock Market**—The equity market (SPX) is a bit expensive at 20x earnings given short term rates (4.3%) and where 10-year Treasury yields are trading (4.3%). The leading equity sector (tech) looks expensive and overowned. Productivity-led growth may be the next phase which US equities must price. Some estimates as high as 7%-10% productivity gains due to AI applications, may be the next big trend for US stocks to price.
- EPS expectations for S&P 500 are strong, +20% over the next two years. A pro-growth economic agenda is coming from the new administration.

V. Stock Market Indicators

OVERVIEW:

A. Monetary/Fiscal Policy—The consumer continues to be squeezed which eventually will lead to a consumer driven slowdown / recession – unless tax cuts arrive soon accompanied by de-regulation, steady / lower rates and moderate inflation. Fiscal policy has been very loose while monetary policy has been moving toward easing.

B. Sentiment—We use the sentiment figures as a contrary indicator. The current MV bullish adviser's reading is at 67%, a mildly negative figure.

AAII Index			
	1/23/2025	1/30/2025	2/6/2025
Bullish	43.4	41	33.3
Bearish	29.4	34	42.9
Neutral	27.1	25	23.8

Source: Bloomberg LP

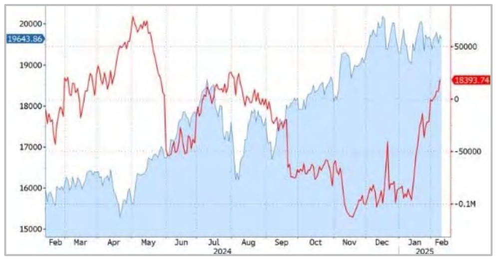
Market Vane Survey			
	Last Week	Two Weeks Ago	Three Weeks Ago
Bullish Consensus	67%	68%	70%

Source: Barron's

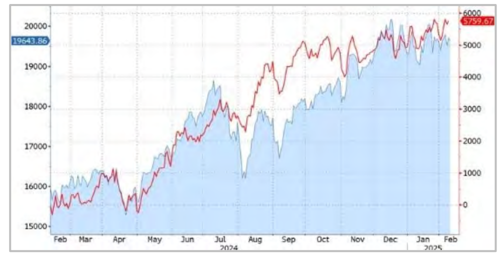
C. Supply/Demand/Money Flows—The S&P 500 consensus is around $284 for 2025. The IPO / Secondary Market is picking up which will increase supply, though probably not dramatically. Retail investors have become much larger investors in US stocks in recent years and they are bullish, perhaps too much so. The day after "DeepSeek" retail investors bought $3 billion in US stocks. Stock buybacks are surged last year on record corporate profits. All things considered, the demand side has been almost too good.

NASDAQ Money Flow (Block)

NASDAQ Money Flow (Non-Block)

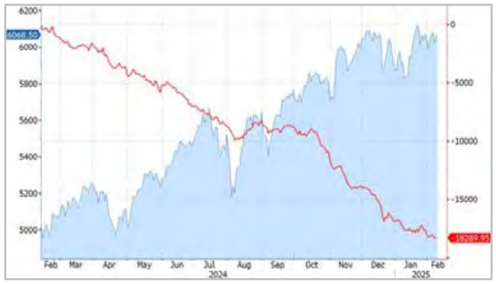


Courtesy of Bloomberg L.P.



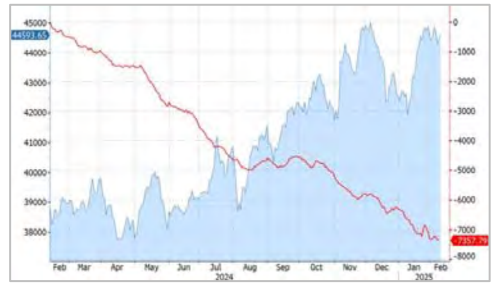
Courtesy of Bloomberg L.P.

S&P 500 Money Flow (Non-Block)



Courtesy of Bloomberg L.P.

Dow Jones Ind Average Money Flow (Non-Block)

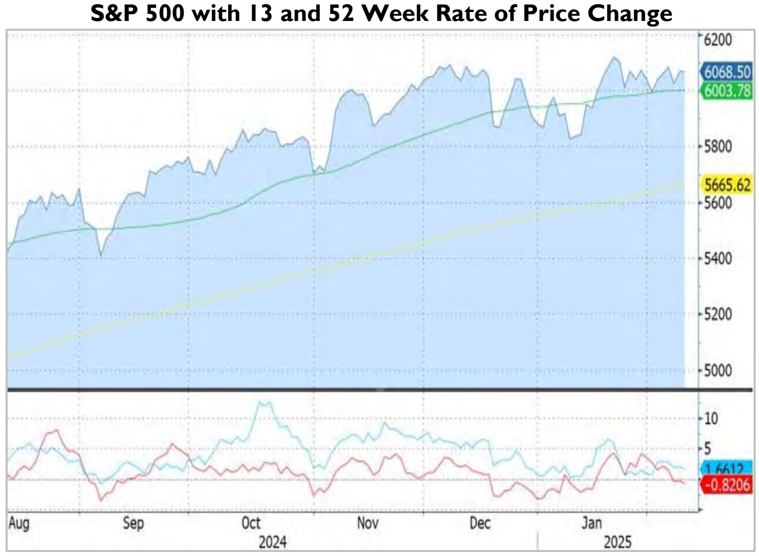


Courtesy of Bloomberg L.P.

D. **Valuations—**The S&P is trading at roughly 20x earnings. Interest rates remain a key factor, especially if the 10-year Treasury yield can be stabilized.

E. **Rate of Change—**The S&P 500 ROC as of February 6th is slightly overbought.

S&P 500 with 13 and 52 Week Rate of Price Change



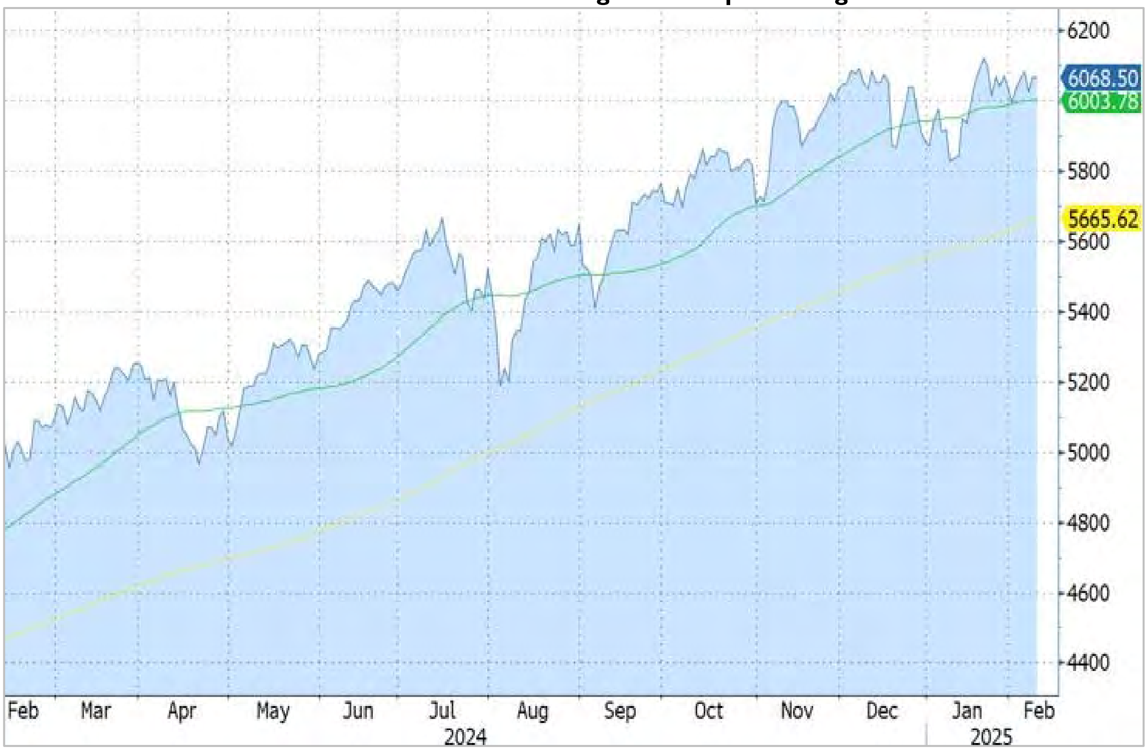
Courtesy of Bloomberg LP

Conclusion—Stocks are not terribly cheap or expensive given where interest rates are. Will Tech continues to lead the market? A rotation into small caps and the broader market seems to be underway. Small caps are just beginning to move higher – driven by de-regulation, the prospect of lower corporate taxes and reduced energy costs.

Data Sources:

Barron's, 2/10/2025
Bloomberg
Investor's Business Daily, 2/10/2025
The Economist, 2/6/2025

S&P 500 Index — Is a Long Term Top Forming?



Courtesy: Bloomberg LP

And They Are Off! Trump 2.0 Gets Underway

What I would like to do is highlight some of the more important Executive Orders being signed by President Trump, and the effect we expect they will have short and long term.

1) A universal tariff may be imposed, but he has not made a final decision yet. This is a negotiating tool, but I also think there will be a UT of some size as it raises revenue. China tariffs will be studied. Trump again called on Europe to buy more US energy to avoid tariffs. South Korea, alarmed by the new tariff proposals, already wants to talk with the US with buying additional US energy and food in mind.

2) Trump said he plans to impose 25% tariffs on February 1st, on goods coming from Mexico and Canada. The auto parts industry claims this could add $3,000 to the price of a new car. The EV Mandate subsidies are ended. The other new tariff which might be imposed could relate to the energy industry. The Premier of Alberta was in the Rotunda of the Capital for the Inauguration, a coveted seated to have. Alberta sends 4.5 million bpd of oil to the US daily and that could possibly go to 8 million bpd. As I understand, the Canadian provinces control their natural resources. Can Ottawa stop an 8 million bpd deal with the US? Drill, baby, drill, but in this case, it would be buy, baby, buy!

3) TikTok got a reprieve. Control of TikTok and Musk's ownership of Twitter pretty much changes control of the US media which has the most influence over youth and free speech advocates. Mainstream media is dying. The old-line networks could not get VP Harris over the line. Twitter and TikTok did.

4) The US will leave the WHO and the Paris Climate Accord. The US is one of the main funders of the WHO. This begins overhauling the US Health Care system.

5) The US will "probably" stop buying oil from Venezuela. Who needs it if the US has a deal with Alberta? And if the US regains control of the Panama Canal, my guess is the shipping rates will rise for non-Western Hemisphere countries anyway, including Venezuelan oil shipments. Trump also ordered US waters be opened to drilling.

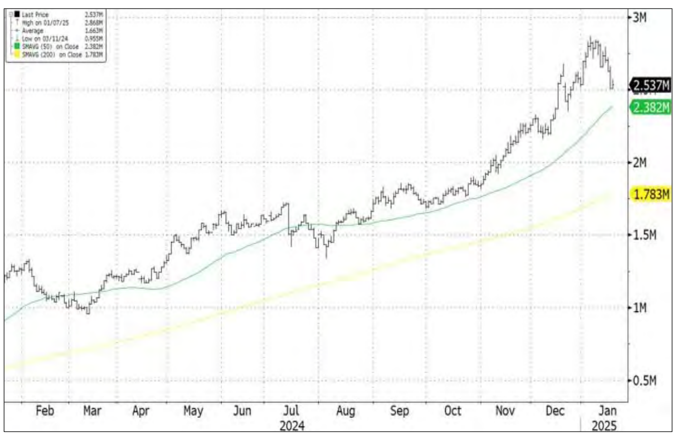
6) Elsewhere in the energy sphere, the freeze on LNG exports is being lifted. LNG, GLNG, and NFE we have in the Unconventional Model. Conversely, wind power permits are frozen.

The Future

It seems clear to me that the changes which are about to hit the system will be a shock to the markets, investment managers, and to the system itself. The US is a new nation now and I think this inauguration speech will be seen in the future as the end of an era which started with President Obama, ran through Biden's term, and would have been part of the Clinton legacy if she had not lost to Trump in 2016.

The stock market may have a sell-off in the near term, until two things happen. The first is Trump's agenda, especially if the tax and tariff packages are passed and there is certainty as to what the ground rules are. The second "event" is DOGE, which I think many managers believe is unlikely to be effective. A Federal hiring freeze has already been put in place via an Executive Order. Subsidies to the EV market and climate projects will end. This is just the beginning of a downsizing of government, which I see has worked wonderfully in Argentina. The new government in Argentina has reduced government spending, inflation is falling, the Peso is rising, and the Merval Index has doubled over the past year. The President of Argentina, Javier Milei, was at the inauguration. He has met with Trump and Musk. When Musk shows how DOGE can cut a trillion Dollars from the budget, I expect US markets to behave in the same way.

Merval Index



Source: Bloomberg LP

The other shift in power (this one from government to the private sector), will be in the communications sector. The shift to social media will go on and the legacy media is dying. In a recent court case, it was revealed that CNN revenue fell from $2.2 billion to $1.8 billion in three years.

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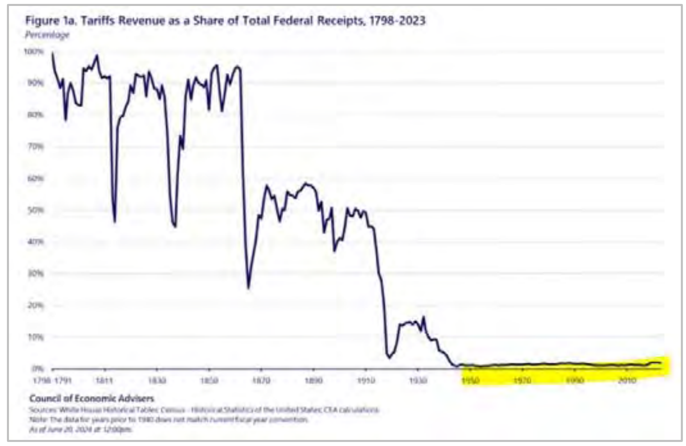
Finally, Trump noted the US is returning to being a meritocracy. DEI is over. Companies are closing their offices (Wal-Mart, Meta and Lowes) and the government has been mandated to cancel their DEI programs. Even the FBI closed their DEI office in December. Socially acceptable permission has now been granted to the corporate sector.

Sources:
Bloomberg Data
Bloomberg News
NY Post

A Time To Ponder

Tariffs Revenue as a Share of Total Federal Receipts, 1798-2023



Source: https://x.com/pmarca/status/1873880292043481203

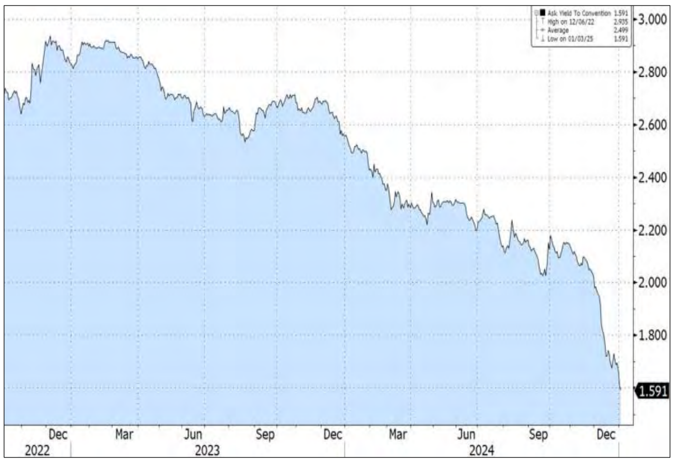
The first graph (above) shows us America's historical tariff revenue as a percentage of total Federal revenue. Until the Income Tax was started in 1913, the country basically funded itself with tariffs. It was during the period from the post-Civil War period to when WW1 began (1865-1914) that the economy boomed. Technology expanded rapidly, railroads crossed the Continent, infrastructure developed, electricity capacity boomed etc. It was also a boom time for Wall Street. During that time, the US government was funded by tariffs.

It is important to pay attention to what President Trump is saying about tariffs. I think he is very serious about bringing tax rates down (corporate and individual rates) while pushing tariff income meaningfully higher. He does not need Congressional approval to move tariffs. MAWA, Make America Wealthy Again. That's the goal.

We must pay attention when he says things which may seem unlikely or even outrageous. So when he talks about acquiring Greenland because it is important for national security, pay attention. When he talks about Canada becoming the 51st state, he wants something and is willing to talk about it. I would not want to be in Mexico's shoes right now, because it is what he does not talk about, that could become a major surprise. Mexico is already in serious arrears to several US companies for payments they owe. Mexican-based drug cartels may control part of the southern border, for now. Trump has had a lifelong aversion to drugs and alcohol and countries which owe the US. When he talks about the fentanyl crisis and drugs crossing the border, he means it - he will make a serious effort to stop it.

For China, this is difficult news on several fronts. China's economy is already in major trouble, that is what the price action in the 10-year Chinese sovereign bond suggests. Long-term rates are rising in the West, but in China, they are falling. The Chinese 10-year trades at 1.59%, down 110 bps since January 1st, 2022, when the Fed began to hike rates. The US 10 year has risen 300 bps since then, a massive gap of 410 bps. During that time, Chinese shares fell while SPX rose from approximately 4,800 to 5,950 as of 1/3/25. It was not until late 2023 that SPX recovered from its 2022 losses. The S&P is up only 25% over those three years an annual return of 8%.

China 10-Year Yield



Source: Bloomberg LP

The next chart shows the CSI 300. These are China's top companies, and they are down about 22% over the last three years or a net negative return of about 7% annually. The Chinese credit market has been sending the right signal and stocks are following it. Trump's tariffs will force additional stimulus and/or a change in approach on how China's economy is managed- which we think may be very near. A Chinese currency devaluation is likely to be done, in my view, also possibly soon. This will put even further upside pressure on the USD.

CSI 300

Source: Bloomberg LP

Back to US tariffs. President Lincoln was a protectionist who supported the Morrill tariff. That tariff bill was passed two days before his inauguration, and which raised the average tariff from 15% to 37.5% over an expanded list of items. (1) He was echoing Alexander Hamilton who was the thought leader behind the concept of protecting infant industries - which in his day meant virtually the entire US economy in the years after the Revolutionary War ended in 1783. President Theodore Roosevelt said in his inaugural address "that great prosperity in this country has always come under a protective tariff." (2) These statements and the policies followed by these Presidents and the first Secretary of the Treasury (Hamilton), run counter to the modern mantra that tariffs were the cause of the Great Depression in the US. The global movement toward lowering tariffs for global trade is over. That fashion is in retreat, protecting key industries is now in vogue, not just in America, but also in Europe and increasingly in China.

President Trump has two years, not four years to get done what he wants to do. He faces another mid-term Congressional election and even if the Republicans win a second majority in 2026, he will have less political leverage. Will a shift back toward a tariff financed US fiscal situation, be the solution for the fiscal situation and US Treasuries which markets have yet to price?

Sources:

(1) F. W. Taussig. Tariff History of the United States. https://cdn.mises.org/Tariff%20History%20of%20the%20United%20States_4.pdf

(2) https://www.presidency.ucsb.edu/documents/second-annual-message-16#:~:text=It%20is%20exceedingly%20undesirable%20that,tariff%20changes%20at%20short%20intervals.

Bloomberg Data

Bloomberg News

Observations & Questions From Readers

I wrote recently about how much the US and the world have changed since the US election. The scale of the change which Trump is affecting in the US is unlike anything I have ever seen. The Stargate project is an example, despite the competition that will come from DeepSeek which is as powerful as Open AI but costs 3% of the price. Those are numbers I see bandied about and reality may be different but I have to assume that Oracle, Softbank, Microsoft and the rest understand what they are getting into. The one who is not "getting in" is Musk who claims not to have the money. I suspect this has something to do with his own projects, Grok 3 and 4, but we shall see.

My point is two of these three mega AI projects are being run in the US. The new tech world is being created and incubated in the US. This will give the US even more control of the future. If you think tariffs are the ultimate and only negotiating tactic Trump can and will employ, think again.

Access to technology will be used to gain leverage. Subsidized industries which have been in the last US government's favor, will have a tough go of it in the future. The next chart is the Global Solar ETF in New York. When President Biden entered office, it traded at $120. Today, it is trading near $33 with no sign of support on the chart. Some industries will lose their clout.

Invesco Solar ETF (TAN)

Source: Bloomberg LP

Another heavily subsidized industry is EVs. Those subsidies will fall dramatically. I see that in the Netherlands a third of Tesla owners may sell their cars as they experience "Tesla" shame. The "shame" is apparently experienced over Musk's pay package and involvement in politics. There have been a number of questions we have received recently from Europeans who want to know how Musk can be allowed to be so close to Trump, a US President. Rich people near US presidents are not unusual. This is not a new thing. Among Kamala Harris's top 20 contributors, according to Open Secrets were Greylock Partners (10), Ripple (11), Euclidean Capital (12), Sequoia Capital (13), and Alphabet (19). As for President Biden's relationships, I would not say Bezos (via the Washington Post he owns) and Zuckerberg (who put over $400m into the race against Trump in 2020) were unfriendly to Biden. This is just a fact of American political life. Money buys access and if someone can convince me the same system does not operate in European politics, please let me know. If it helps, I believe Trump's new chief of staff, Susie Wiles will be as effective in the White House as she was in the campaign.

Speaking of Europe, we are also getting feedback from readers about why they should or should not buy European equities. They are cheap. At roughly 14x, they represent value relative to the US market but excluding the banks and the companies located in Europe which sell to the world, there is no catalyst. Worse, the EU is falling behind in the technology race via the Digital Information Act. This ACT is used to hobble US companies which in turn makes it difficult for the EU to develop its own tech sector. In the new AI world, the EU will have to buy this tech expertise rather than having it home grown. This narrows the number of companies which are clear winners in the New Economy and are located in Europe. That's the problem, there is not a lot of market cap to buy in Europe, in the new world. All is not lost. Italian banks have been cleaned up and look interesting. Aside from the banks, two interesting companies are Siemens Energy and Bank of Ireland (6x PE and 3.5% dividend) which has Mr. Addison's blessing on the chart. If we put the BOI chart up since the European credit problem in 2012, that must be one of the largest head-and-shoulder patterns I have ever seen. That stock was €340 in 2007. Today it is near €9.

Bank of Ireland

Source: Bloomberg LP

Finally, our view on Gold and Silver is not only intact, these metals may be ready to accelerate again, to the upside. Mr. Addison's call is if there is a monthly close above $2,800, then $3,200 to $3,400 comes into view. I agree with the direction but I also think the pressure is going to be piled on Powell to lower short rates. If he complies, I think Gold goes even higher.

Spot Gold

Source: The Institutional View

I see the European press criticizes Trump because he is pushing Powell to cut rates. Sometimes it reads as if such behavior toward the Fed never happens or at least it should never happen. It does happen, and worse has happened. In 1965, President Johnson called Fed Chairman William Martin to LBJ's Texas ranch where he shoved the Fed chairman around his living room while yelling at him, face to face. This seems a lot more aggressive behavior than being criticized on Twitter or listening to a Davos event. Trump did not order interest rates to be cut. He said he will demand that rates be cut. If he could order rates to be cut, that would already have happened. Behind closed doors, my guess is Trump's view would have a lot of support across a wide range of countries. In Europe, where the largest economy, Germany, has had virtually no growth for two quarters. Why not cut rates? Why is the German 2-year at 2.2% when there is no growth?

Sources:
Bloomberg Data
Bloomberg News
The Institutional View, January 24, 2025

An American Payback Theme

It is no secret that in the US, ambassadors are often chosen for the amount of money they contributed to a Presidential candidate's campaign - if they win. Likewise, companies, PACs, and even individuals vie for attention, backing and favors when they contribute to political campaigns - at all levels.

Given the clean sweep which the Republicans had in the 2024 election, Senate, House, and Presidency, they are in a unique position to reward their backers. There are new investment themes a plenty being generated by the new administration, but here is one that is tried and true. Back the companies and industries which supported winning candidates.

Open Secrets is an organization which compiles this information and makes it publicly available at https://www.opensecrets.org/2024-presidential-race/donald-trump/contributors?id=N00023864. The following table comes from their website and it shows the organizations, PACS, their individual members, employees or owners and those individual immediate families and what they contributed to the Trump campaign.

Here are the Top 20 Contributors to Trumps 2024 Campaign:

C $265 million

Investor / Timothy Mellon $150 million

Adelson Clinic for Drug Abuse Treatment and Research $106 million

Securing American Greatness $67 million

Building America's Future $23 million

Action First America / America First Policies $21 million

Hendricks Holding $15 million

Bigelow Aerospace $14 million

Energy Transfer LP $12 million

Laura and Isaac Perlmutter Foundation $12 million

ABC Supply $11 million

Cantor Fitzgerald $11 million

Uline, Inc $10 million

Pratt Industries $10 million

British American Tobacco $10 million

SAG PAC $9 million

Southern Waste Systems $9 million

Elliott Management $7million

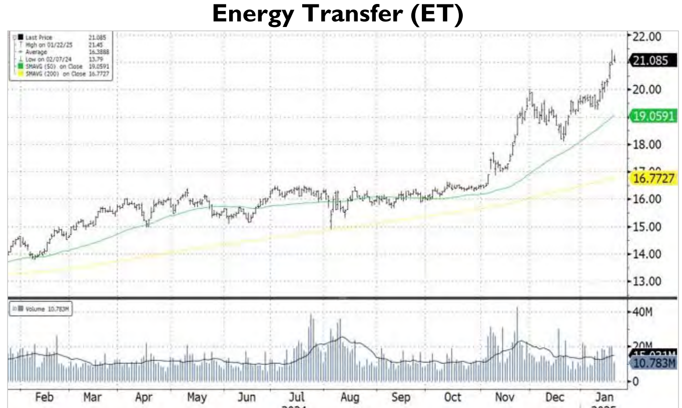
Andreessen Horowitz $7 million

Vitol, Inc. $6 million

There are two public companies on the list, Energy Transfer (ET) and British American Tobacco. Both sport pretty fancy dividends, 7% and 6%, while their businesses could not be more different British American Tobacco sells cigars, cigarettes, VAPE products while ET is in the transportation/storage business of oil and natural gas. Their charts look great. Why did they contribute?

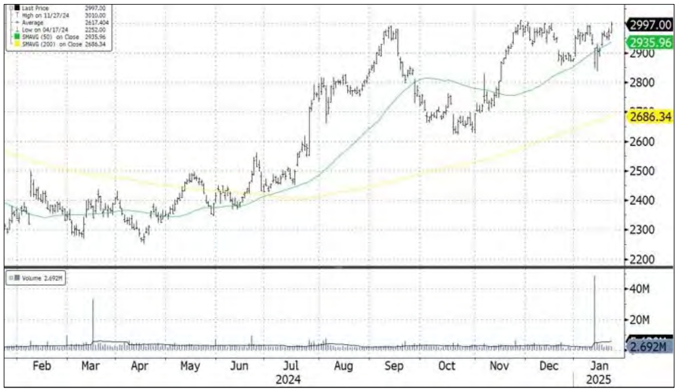
For ET it may simply be a case of additional volume making them more money. Trump's drill baby, drill mantra is exactly what this company would encourage to be official US policy. BAT is more difficult to call. It may have something to do with their US vaping business. Maybe they are preparing for an acquisition in the US. Perhaps it is simply a defensive move with respect to making cigarettes non-addictive.

Energy Transfer (ET)



Source: Bloomberg LP

British American Tobacco



Source: Bloomberg LP

The "investment" made by SpaceX is understandable given the company's contracts with NASA and the subsidies which Musk receives from the Federal government. Another beneficiary of the Musk effect is Tesla.

Tesla (TSLA)

Source: Bloomberg LP

There will be other ways to look at how this theme will play out. One area must be the crypto space. Reasonable regulation, which is coming as the crypto folks were also good supporters, will help that industry grow. This may also be in the government's interest. The US government owns about $20 billion in Bitcoin at current levels. This stockpile comes from confiscations of assets. If a Bitcoin or crypto reserve is to be built, this will be the seed capital and I suspect it will not be sold. The overhang it may have had in the market should be going, going, gone.

There will be much bigger themes to consider as the Trump administration rolls out its economic agenda. Here are a few thoughts after watching his Davos speech.

The US will not participate in a global minimum tax. If the rest of the world wants to do that, fine, watch the billionaires and their capital head for Uncle Sam.

Trump will ask OPEC and the Saudis to lower oil prices. This may be the excuse they need to boost production and make it even more difficult for Russia to continue the war. This does not conflict with our belief that Trump is looking for leverage over Putin before negotiations begin. If the Saudis do not increase production (they might to regain market share) in order to lower prices, perhaps some Russian capacity might be disabled in some way, but by Ukraine, rather than the US. Energy prices are his potential leverage with Putin. Trump will use it.

Lower oil prices would lower inflation expectations and put pressure on the Fed to cut rates, another policy point which Trump also brought up. He wants lower rates in the US. The Fed does not have to comply. But will they do so anyway? Where is the deal to be made here?

Trump basically warned of a worldwide trade war. He told non-US companies to produce in the US or pay tariffs, it's up to you. Free trade is over in Trump's economy. So is woke politics, DEI and high taxes. I think the SALT deduction in the US will be raised in the next tax bill. For residents in high tax states, this will be a very welcome development, if Trump blesses an improvement in the SALT deduction - he seems to have done. Globally, if other countries want to charge their companies higher tax rates than the US does, he is happy with that. Trump wants a 15% corporate rate in America. This is not what the EU wants, they want the US to raise rates so they will be more competitive. Trump will not do that. The EU is in a pickle on this one and must have a bit of whiplash after four years of Secretary Yellen agreeing to go along with the global minimum tax and then poof, it's gone.

The EU was also criticized for the fines being charged to American tech companies. He views those fines as a form of taxation. This is where we can see how the US government is now being tech led. US tech firms will benefit from de-regulation, lower taxes, and government supporting projects like Stargate.

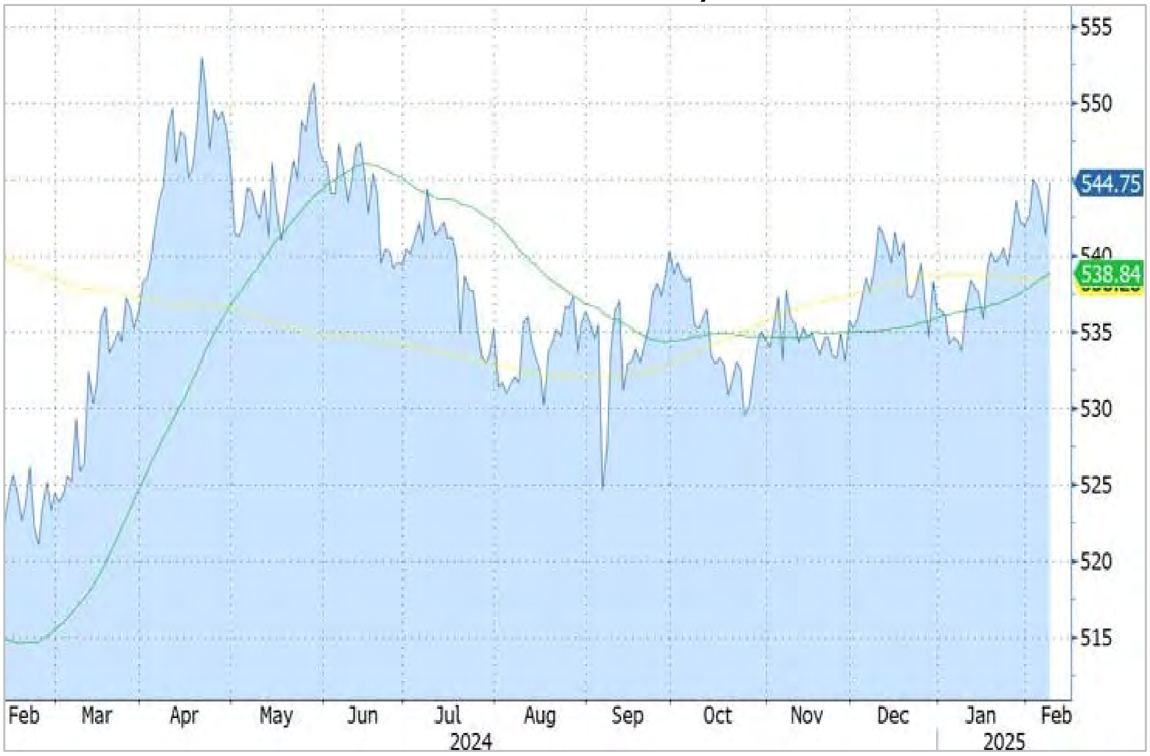
Finally, Trump talked about the need for a massive increase in electrical generating capacity due to the AI build out In America. He even mentioned relying on clean coal as a back-up fuel for electrical generation plants. He also noted nuclear is going to be used, while natural gas is likely the lead fuel for now. Peabody Coal anyone?

Peabody Coal (BTU)

Source: Bloomberg LP

Sources: Bloomberg Data; Bloomberg News. NI DAVOS

CRB Continuous Commodity Index



Courtesy: Bloomberg LP

Gold and Silver

Our view on Gold and Silver is not only intact, these metals may be ready to accelerate again, to the upside. Our friend, Mr. Addison's call is if there is a monthly close above $2,800, then $3,200 to $3,400 comes into view. I agree with the direction but I also think the pressure is going to be piled on Powell to lower short rates. If he complies, I think Gold goes even higher.

Spot Gold

Source: The Institutional View

Source: The Institutional View, January 24, 2025

From Trump's Press Conference

The new America first policy will be multilateral, mercantilist and perhaps venture into new forms of currency - i.e. tariff policy, a hyper-competitive US economy, cryptos, A.I., and using Bitcoin / Gold as a settlement asset. The old system is out and something new is being born. The message to the world is get on board with the US while the teams are being lined up.

Source: Bloomberg News. NI NATO, NI TRUMP

The Deep(Seek) Selloff

The below article was produced by my longtime friend ***Nathan Weiss*** *at Weiss Harrington, with his permission. Nathan speaks to the Institutional World as we do and this topic, DeepSeek and what it is/means is a high priority. Feedback is welcome.*

We believe selloffs are the result of conditions (such as a dry forest) rather than catalysts (careless campers and lightning strikes), so we attribute much of today's tech selloff to equities being extended. With that in mind, lets discuss today's catalyst: DeepSeek.

A Brief Overview of DeepSeek

DeepSeek is a generative AI research lab established by Liang Wenfeng, the Principal of Ningbo High-Flyer Quantitative Investment Management Partnership, a prominent Chinese quant fund he founded in 2015. Liang, who holds a master's degree in information science, successfully expanded his fund to over 100 billion RMB ($15 billion) by 2019, making it the largest quant fund in China at the time. Subsequently, Liang invested substantially in GPUs and established an internal deep learning group called Fire-Flyer. About two years ago, amidst a decline in the fund's AUM, Liang spent more time developing generative AI software.

DeepSeek initially rolled out an underwhelming language model on Christmas – DeepSeek-V3 – but on January 20th, an updated reasoning version of the model, named DeepSeek-R1, was introduced. The R-1 model is the model grabbing headlines today.

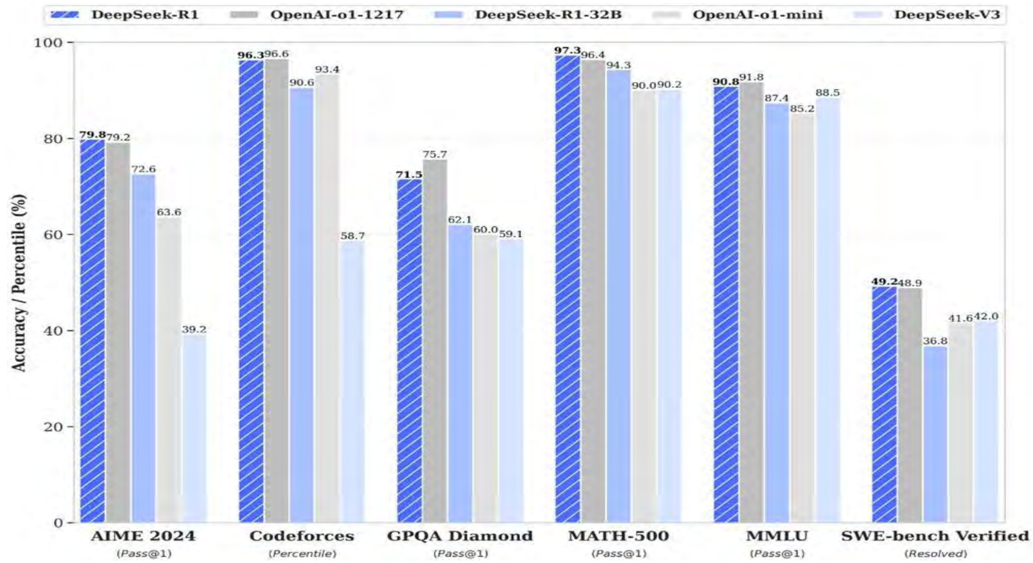
DeepSeek's Training Efficiency

According to DeepSeek, they trained their V3 model using 2,048 NVIDIA H800s, which are effectively H100s with 50% lower chip-to-chip transfer speeds, allowing them to be exported to China (prior to updated export restrictions in October 2023). The Technical Report for DeepSeek-V3 (link) states they trained the model in 2.788 mln NVIDIA H800 GPU hours – approximately 56.7 days assuming no major downtime. Meta's quite successful open-source model, Llama 3 70B, was trained over 17 days using 16,000 NVIDIA H100 GPUs – or 6.528 million H100 GPU hours. This suggests DeepSeek is twice as efficient as Meta at training.

Before we move on, we should point out that **DeepSeek reportedly has access to 50,000 NVIDIA H100 GPUs (link), a curious amount of computing power for a company claiming to have trained DeepSeek V3 using 2,048 NVIDIA H800s**, and reports from over a year ago suggest DeepSeek owned 10,000 H100 GPUs. Moving on…

DeepSeek's technical report (link) discusses how they improved the performance of their H800s by utilizing a 'DualPipe' parallel communication algorithm, low-precision communications and parallel processes to minimize the need for communications - but we do not know if they matched (or exceeded) the performance of the H100. It is also noteworthy DeepSeek did not employ a typical labeled data reinforcement learning framework (such as PPO-RL), they utilized a group policy framework (GRPO) which effectively examines the coherence of output instead of labeling data – improving efficiency. The GPRO framework has never been successfully deployed, as far as we know. That said, this discussion is beyond the scope of today's e-mail, so we will save the topic for a future update – assuming it is relevant.

Meta's Llama 3 70B and DeepSeek's V3/R1 were both trained on approximately 15 billion tokens (14.8 billion for DeepSeek V3, 15.0 for Llama 70b), so the (reported) training efficiency of DeepSeek V3 cannot be attributed to running less training data. That said, DeepSeek could have utilized more significant pre-training than they disclosed and/or baseline model weights from a competitor. Our suspicions were increased by the following performance graph published by DeepSeek:



Note how the scores of DeepSeek-R1 are very, very close to OpenAI-01-1217 – within 1.00% for every single test except the GPQA Diamond benchmark. Having spent a considerable amount of time examining benchmarks over the past year, we can say this is very unusual: Each model typically has strengths and weaknesses causing relative performance to vary significantly from benchmark to benchmark. **Assuming DeepSeek didn't make up their benchmark performances, the very close relationship between the scores of DeepSeek-R1 and OpenAI-01-1217 suggest the models are related – meaning DeepSeek may have utilized model weights from OpenAI and/or inferred weights/outputs by utilizing o1 model for reinforcement learning or fine tuning.**

The other curious feature of DeepSeek's V3/R1 models are the number of total parameters – or weights and biases. Higher parameter counts greatly increase the complexity – and processing resources – needed to train and run a model, with some of the increased complexity offset by the fact that higher parameter counts can encode more complex functions and patterns. DeepSeek has 671 billion parameters, making it a quite large model. For comparison, Llama 3 70B has… You guess it. 70 billion parameters. ChatGPT-4 has 1.76 billion parameters.

But…

Models such as GPT-4 use a Mixture of Experts (MOE) approach, meaning they are collections of smaller, specialized ('expert') models that together account for the total advertised parameter count. Specifically, ChatGPT-4 is made up of 8 smaller models, each with 220 billion parameters. DeepSeek's previous model, DeepSeek-V2, has 236 billion parameters dividend into a stunning 160 experts, suggesting the average model size was just 1.48 billion parameters. DeepSeek-V3? Surprisingly, the technical paper did not discuss their expert policies, perhaps because they do not want to draw attention to them.

Based on DeepSeek's disclosure that V3 activates 37 billion parameters per request, the model utilizes at least 18 experts. On the upper end, we know that V2 activated 6 experts per request, resulting in 112 experts for V3 assuming DeepSeek utilized the same framework. So why are we nerding out over MOE models?

The following table shows the price to train various models on the Cerberus Model Studio:

Model	Parameters	Tokens to Train to Chinchilla Point (B)	Cerebras Model Studio CS-2 Day to Train	Cerebras Model Studio Price to Train
GPT3-XL	1.3	26	0.4	$2,500
GPT-J	6	120	8	$45,000
GPT-3 6.7B	6.7	134	11	$40,000
T-5 11B	11	34*	9	$60,000
GPT-3 13B	13	260	39	$150,000
GPT NeoX	20	400	47	$525,000
GPT 70B	70	1,400	85	$2,500,000
GPT 175B	175	3,500	Contact For Quote	Contact For Quote

Training a 70 billion parameter model, the size of Llama 3-70B, costs $2,500,000. Training an 11 billion parameter model? $60,000. You probably get where this is going. If one were to build a 700 billion parameter model utilizing 10 experts, based on the above table, the total cost would be $25,000,000. Training a 700 billion parameter model utilizing 64, 11 billion parameter experts? $3,840,000.

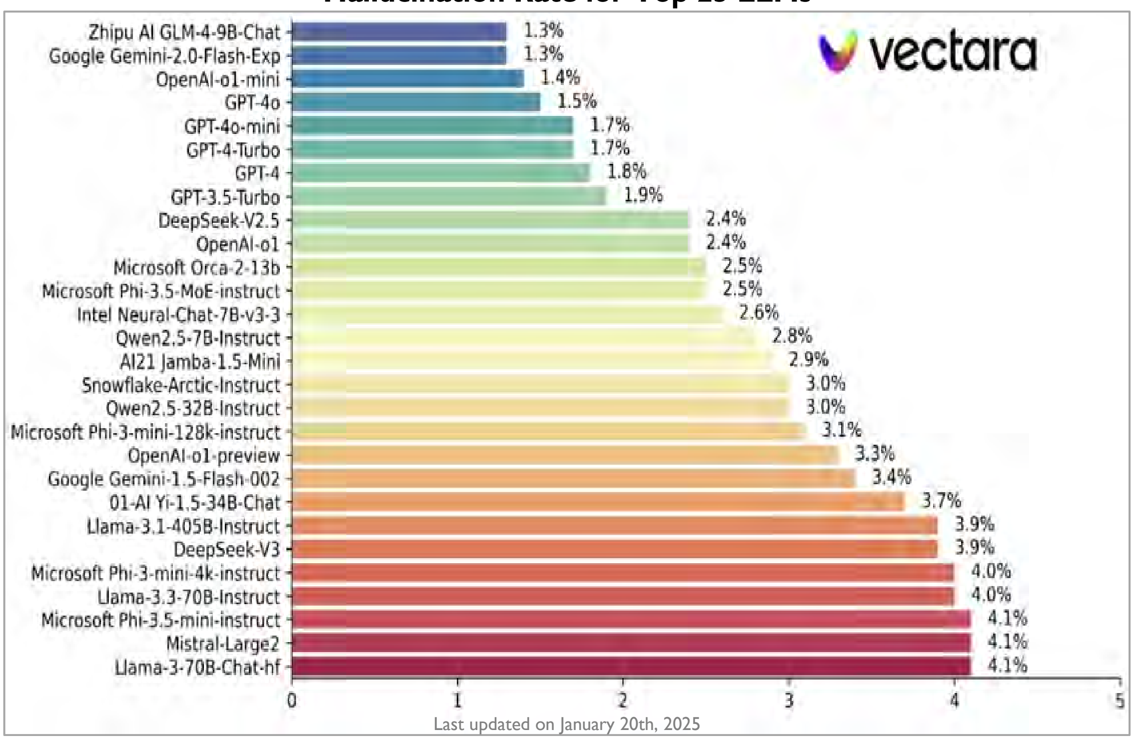
The utilization of a high number of experts is not an innovation or development unique to DeepSeek. Surely, they have done proprietary research to develop their own 'Gating Network' – the system which decides which models to call upon for each request (most expert systems call on multiple models at a time), but this approach is not revolutionary.

Why don't other firms use a higher number of experts to reduce costs and increase inference performance?

Hallucinations

Smaller models simply 'know' less – there is less information, less context, and fewer/less refined relationships between tokens than in larger models. As a result, small models suffer from hallucinations – especially with multi-domain questions (such as asking which car to buy based on payment calculations AND reliability data AND your personal preferences). Fortunately, we have some early hallucination rate data for DeepSeek-V3 from Vectara:

Hallucination Rate for Top 25 LLMs



As displayed on the above table, **GPT-4o has a 1.5% hallucination rate while o1 has a 1.4% hallucination rate. Even DeepSeek 2.5V has a still-respectable 2.4% hallucination rate. DeepSeek-3V? 3.9% - among the worst of all models tested.**

When solving complex problems or executing multiple step queries as a reasoning model tends to do, the hallucination rate effectively multiplies: If a model has a 1.4% chance of getting each of 5 steps wrong, the probability of a correct answer at the end is 93.2%. A 3.9% hallucination rate lowers the 5-step problem success rate to just 81.9%. Presumably DeepSeek can improve the performance of V-3 over time, but the deployment of small experts has consequences.

Benchmarks

So far, we know that DeepSeek is a top-performing model because… DeepSeek told us it is a top performing model. There are multiple ways a developer can exaggerate a model's performance:

- **Training Models on Benchmark Questions**: This is surprisingly common problem, sometimes occurring intentionally and sometimes unintentionally (training data contains benchmark test data). Several studies have shown simply changing the names of people in mathematical reasoning question lowers the performance on many language models, suggesting they were trained on the benchmark questions. In the coming days, researchers will evaluate DeepSeek-R1 using modified benchmark questions, assuming they aren't already.

- **Applying Excessive Inference Time Compute**: Developers can allocate additional compute time to taking a benchmark test, inflating scores. In the case of OpenAI, their o3 model scored 76% on the ARC-AGI benchmark at a cost of $17 to $20 per question. OpenAI then tested o3 in a 'High Compute/Tuned' configuration, spending more than a million dollars to answer the 400-question exam. The score?? 88%. In this instance, OpenAI was not trying to cheat – they wanted to demonstrate the capabilities of an unconstrained reasoning model. In doing so, they arguably took the title of the first model to achieve AGI, quite possibly as a negotiating tactic with Microsoft.

- **Lying:** Developers, and nation-states, have a massive incentive to make their models appear to be leading-edge. As we pointed out earlier, the fact that DeepSeek V3 scored so similarly to GPT-o1 on multiple tests is highly unusual. It is also noteworthy that other developers need months of tuning for their models to score well on benchmark tests, but apparently this was not the case for DeepSeek (insert sarcasm).

While we wait for independent testing of DeepSeek R-1, we do have early data from the Chatbot Arena. As we wrote in our September 5th AI Insights, the Chatbot Arena is an open, web-based platform designed for evaluating and ranking LLMs utilizing crowdsourced prompts and feedback. To utilize Chatbot Arena, users submit text or image-based prompts via a browser-based interface, after which they are presented with responses from two models, labeled 'Model A' and 'Model B,' in a side-by-side comparison. The user continues entering prompts until their preferred model be-comes apparent, at which point they 'vote' by choosing 'A is better,' 'B is better,' 'Tie,' or 'Both are bad.' The platform then records the ranking and reveals the identities of each model.

So far, DeepSeek-R1 ranks fourth behind Gemini 2.0 Flash, Gemini 1206 and ChatGPT 4o on the Chatbot Arena:

Rank* (UB)	Rank (StyleCtrl)	Model	Arena Score	95% CI	Votes	Organization	License
1	[illegible]	Gemini-2.0-Flash-Thinking-Exp-01-21	1382	+8/-6	6437	Google	Proprietary
1	1	Gemini-Exp-1206	1374	+5/-4	22116	Google	Proprietary
3	1	ChatGPT-4o-latest (2024-11-20)	1365	+4/-4	35328	OpenAI	Proprietary
3	1	DeepSeek-R1	1357	+12/-13	1883	DeepSeek	MIT
4	[illegible]	Gemini-2.0-Flash-Exp	1356	+4/-4	20939	Google	Proprietary
4	[illegible]	o1-2024-12-17	1352	+6/-6	9238	OpenAI	Proprietary
7	[illegible]	o1-preview	1335	+3/-3	33186	OpenAI	Proprietary
8	[illegible]	DeepSeek-V3	1317	+6/-5	13640	DeepSeek	DeepSeek
8	11	Step-2-16K-Exp	1305	+9/-7	4533	StepFun	Proprietary
9	12	o1-mini	1305	+2/-3	49952	OpenAI	Proprietary
9	9	Gemini-1.5-Pro-002	1302	+3/-4	46621	Google	Proprietary
12	14	Grok-2-08-13	1288	+3/-3	67150	xAI	Proprietary

The Rise of Small Language Models (SLMs)

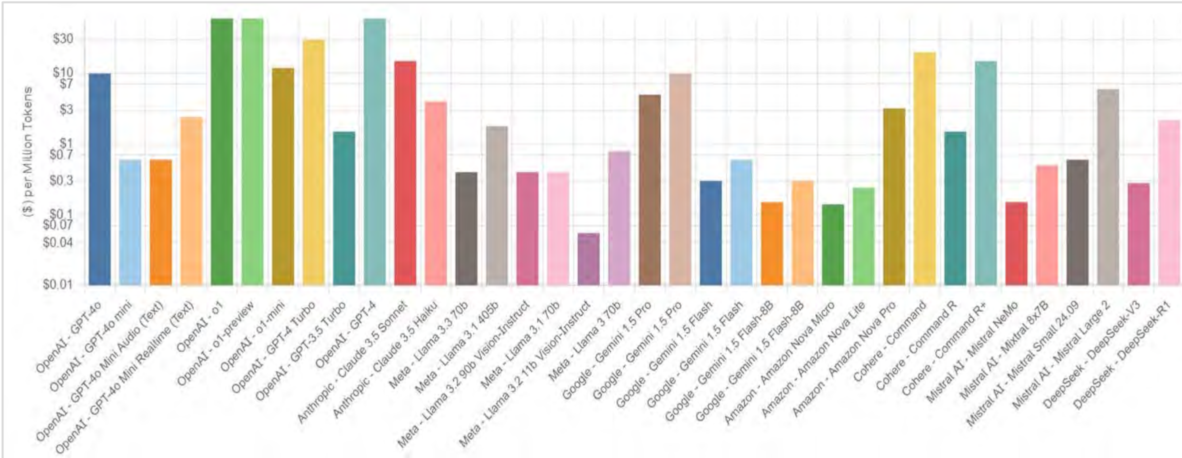
Smaller models are faster, lower cost and can sometimes run locally on a desktop or laptop. One of the scariest metrics circulating today is that DeepSeek-R1 costs $2.19 per million output tokens versus $60.00 per million for GPT-o1.

But..

Looking at the above Chatbot Arena leaderboard, Gemini 2.0 flash is basically tied with DeepSeek-R1. Google hasn't disclosed Gemini 2.0 flash pricing yet, however Gemini 1.5 flash costs $.30 per million output tokens. **I'll wager a dinner that Gemini 2.0 flash output tokens are priced near (or below) DeepSeek-R1.**

Other notable small models, such as GPT-4o-mini, cost just $.60 per million output tokens, as the following graphic from DocsBot.AI displays:

Output Token Costs



Microsoft says Small Language Models (SLMs) can Rival or even Surpass OpenAI o1 (link)

As we wrote in our January 14th AI Insights, Microsoft recently developed a new reasoning technique called rStar-Math, which utilizes Monte Carlo Tree Search (MCTS) to allow Small Language Models (SLMs) to efficiently determine the best answer for complex problems. Using rStar, the math benchmark score of the 7 billion parameter Qwen2.5-Math-7B model increased from 58.8% to 90.0% while the score of Microsoft's 2.8 billion parameter Phi3-mini-3.8B increased from 41.4% to 86.4%. Both scores surpassed OpenAI's GPT-o1 benchmark score of 86.1%.

Notably, the o1 model uses an estimated 300 bln parameters but lots of inference time compute. As a result, OpenAI charges $63.00 per million tokens of output. Models with less than 10 bln parameters typically cost around $0.10 per million tokens of output. We believe rStar-Math is a more significant development than DeepSeek's R-1.

Over time, humanity will become a more efficient consumer of generative AI – a natural evolution which will drive demand. Rather than deploying frontier models ranking in the top 1% of physicists and mathematicians to calculate a restaurant tip, perhaps a small model would suffice…

Conclusions

We believe today's selloff was largely the result of the condition of tech stocks – overbought – rather than the catalyst of DeepSeek. That said, **a competitive race between the U.S. and China is in everyone's interest** – it boosts morale in China, underscores the importance of U.S. investments in AI, justifies the policies of President Trump and makes for engaging news coverage – evidenced by the endless string of TV guests today discussing the situation. For these reasons, the debate ('is DeepSeek real') will likely continue.

While advancements in Small Language Models (SMLs) are detrimental to hardware companies and energy producers in the short run, we were surprised to see software companies sell off in tandem. Microsoft (MSFT), for example, is a huge beneficiary of smaller, faster models as they will greatly enhance their Copilot services. Palantir (PLTR) would also benefit as generative AI moves closer to the user (or the drone). Salesforce (CRM) would be another software beneficiary as the cost of running intelligent agents declines while their utility improves.

In addition, not all hardware companies would be losers: AMD should be a net beneficiary of SMLs, having competitive inferencing GPUs and absolutely dominating AI PCs – which today remain uninteresting due to a lack of local (on-PC) AI software. Google (GOOG) and Apple (AAPL) also benefit as local AI on devices improves.

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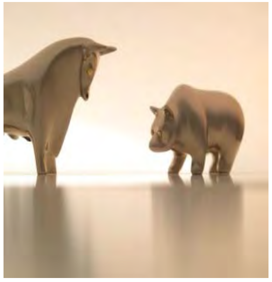


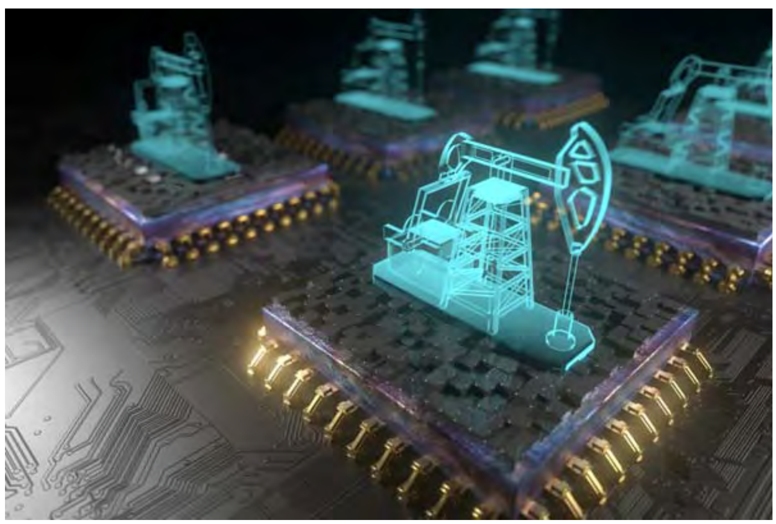
The DeepSeek Drama: Market Manipulation or AI Breakthrough?

The below article comes to us courtesy of our friends at Guild Investment Management in Los Angeles. They have hit the key part of the AI story we are looking at- which companies are applying AI to the benefit of operational returns. Are productivity and earnings rising as a result of AI usage and in what sectors/companies is that occurring? Thanks to our long time friends at Guild for allowing us to re-print this piece.

Chinese AI firm DeepSeek claims to have trained a 671-billion-parameter model for just $5.6 million using 2,048 Nvidia H800 GPUs -- a cost efficiency that, if true, would be a breakthrough in AI development. The announcement triggered a 17% drop in Nvidia's stock before it rebounded, as investors questioned whether AI hardware demand could decline faster than expected. However, OpenAI alleges DeepSeek used "distillation" to train its model -- a practice that would violate OpenAI's terms of service -- raising concerns about intellectual property theft (as well as putting the lie to DeepSeek's claims about its development costs). The timing is also notable, coming just before new U.S. export controls on AI chips to China.

While the details remain contested, the broader trend is clear: AI capabilities are becoming increasingly commoditized. As training costs decline and efficiency improves, the competitive landscape will shift, much as it did with cloud computing and semiconductors. **Whether DeepSeek's claim is genuine or a well-timed market play, the trajectory toward lower-cost AI models is inevitable.**

The Energy Sector Looks Poised to Turn AI Investments Into Financial Rewards…Without Higher Prices



While headlines focus on chatbots and content generation, AI is quietly revolutionizing traditional industries. The energy sector provides a compelling example of how AI is creating tangible economic value through operational improvements. From predictive maintenance to real-time drilling optimization, AI is proving its ability to enhance efficiency, reduce costs, and improve safety in energy production.

Schlumberger's AI Implementation: A Closer Look

Schlumberger (SLB), the global oil service giant, is emerging as a leader in AI-driven energy solutions. The company has developed an AI platform focused on practical applications in exploration and production. Key capabilities include:

1. **Subsurface Simulation & Reservoir Analysis**

Traditionally, geologists and engineers rely on multiple software tools to model underground reservoirs. Schlumberger's AI platform streamlines this process by allowing users to run complex simulations using natural language commands. This reduces analysis time and ensures higher accuracy in modeling oil and gas reserves.

2. Retrieval-Augmented Generation (RAG) for Energy Data

AI is only as good as the data it learns from. Schlumberger has implemented "retrieval-augmented generation" (RAG), a system that integrates AI with the company's vast technical knowledge base. This ensures that AI-driven recommendations align with established engineering best practices rather than relying solely on generic pattern recognition.

3. Vector Similarity Search Across Distributed Nodes

A major challenge in energy operations is sifting through massive datasets -- spanning geological surveys, historical drilling results, and equipment telemetry. Schlumberger's system employs vector similarity searches, enabling real-time access to relevant insights from billions of data points stored across distributed servers.

4. Reliability, Transparency, and AI Explainability

Unlike consumer AI models that operate as black boxes, Schlumberger has prioritized system transparency. This includes audit trails to track AI-driven recommendations; continuous monitoring to detect potential errors before they escalate; and explainable AI features to ensure engineers understand why the system makes certain predictions.

While it is still early to measure the full impact, initial case studies suggest that these innovations could drive substantial efficiency gains. The key question is whether these improvements will consistently translate into higher profitability and lower operational risk over time.

Predictive Maintenance: AI's Cost-Saving Power

One of the most immediate AI applications in the energy sector is predictive maintenance. For example:

- British Petroleum (BP)'s APEX system has demonstrated the ability to predict equipment failures two to three weeks in advance, significantly reducing repair costs and unplanned downtime. Given that offshore drilling downtime can cost up to $1 million per day, early detection of potential failures translates into substantial financial savings.
- ExxonMobil (XOM) has implemented AI-driven predictive maintenance in its refining operations, reportedly reducing downtime by 25% and increasing asset lifespan.
- General Electric (GE) Oil & Gas has developed AI solutions that use digital twins — virtual models of physical assets — to monitor and optimize equipment performance in real time.

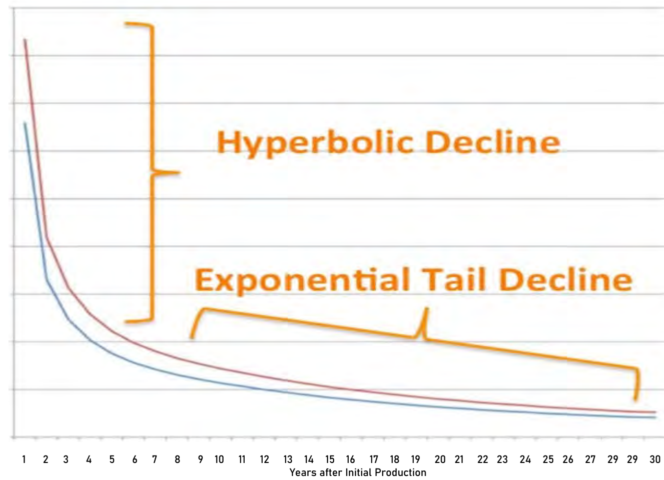
Real-Time Drilling Optimization

- Shell has reported meaningful reductions in drilling time through AI implementation, with some wells showing up to 40% improvement in drilling efficiency. AI-driven optimization adjusts drilling parameters dynamically, allowing for smoother and faster operations.
- Halliburton's AI solutions analyze real-time sensor data to automate drilling adjustments, reducing human error and increasing precision.

AI in Well Planning and Reservoir Management

- AI-driven geospatial analysis is improving the success rate of well placement, reducing costly miscalculations. Companies report that AI-assisted planning can improve resource recovery rates by 10–15%.
- Chevron's reservoir management system uses AI to continuously optimize production, helping to maximize oil recovery while minimizing environmental impact.

Oil and gas economics are at the mercy of the production decline curve. Can AI change its slope and shape?



Investment Implications: AI-Driven Efficiency Reshaping Energy Sector Economics

AI's impact on the energy industry could lead to structural changes in markets, affecting valuations and investment strategies. Key considerations include:

1. **Operational efficiency driving profitability:** Companies that leverage AI effectively may enjoy higher profit margins due to reduced costs and improved resource recovery.

2. **Shift in competitive dynamics:** As in all sectors, energy firms investing in AI-driven operational improvements effectively will gain an edge over competitors that lag in adoption.

3. **Impact on geopolitics and energy prices:** Increased efficiency in oil and gas extraction could extend the lifespan of fossil fuel reserves, potentially moderating price volatility. At the same time, AI's role in renewable energy optimization could accelerate the transition toward cleaner sources, while simultaneously decreasing costs and thus increasing energy supply -- which historically leads to lower prices for consumers.

Looking Ahead: Distinguishing AI Hype from Reality

The transformation of the energy sector through AI represents a crucial case study in how this technology **is reshaping almost all traditional industries**. However, as with any major innovation, it's important to separate real-world impact from speculative claims.

Key questions for investors to consider:

- While markets may initially "cheer" companies who commit large capex to AI, are the ROI gains visible, or merely hoped-for?
- Are companies reporting measurable improvements in efficiency, cost reduction, and asset longevity?
- Are AI-driven enhancements leading to sustained improvements in profit margins, or are they one-time gains?
- How much of the reported improvements are due to AI specifically, versus broader technological advancements (such as better sensors or improved materials)?

While consumer-facing AI applications grab headlines, the most significant economic impact may come from industrial applications that quietly transform efficiency and profitability behind the scenes. For investors, the key is to focus on companies who are proving their success in AI integration and seeing improvement in clear performance metrics, rather than those simply making ambitious claims about AI's potential.

Thanks for listening; we welcome your calls and questions, and please feel free to share this newsletter with any friends and family you think would find it useful.

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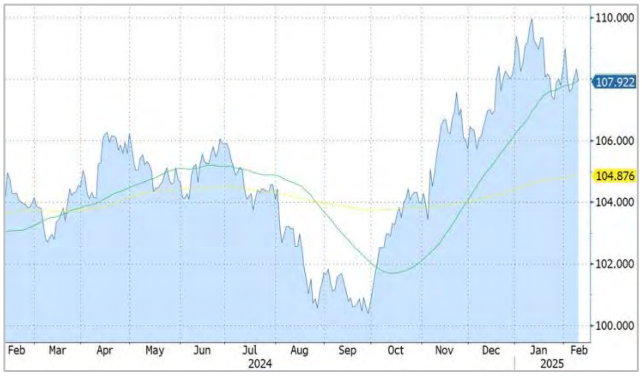
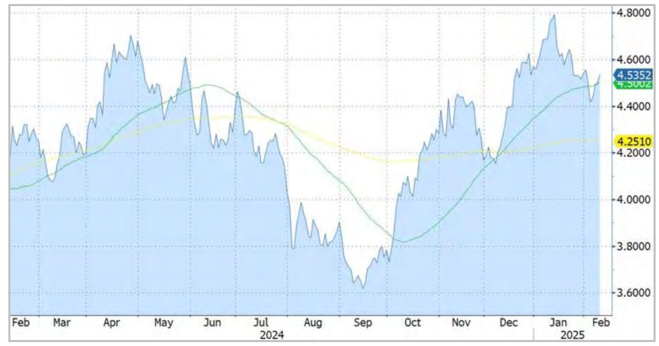
US Dollar Index



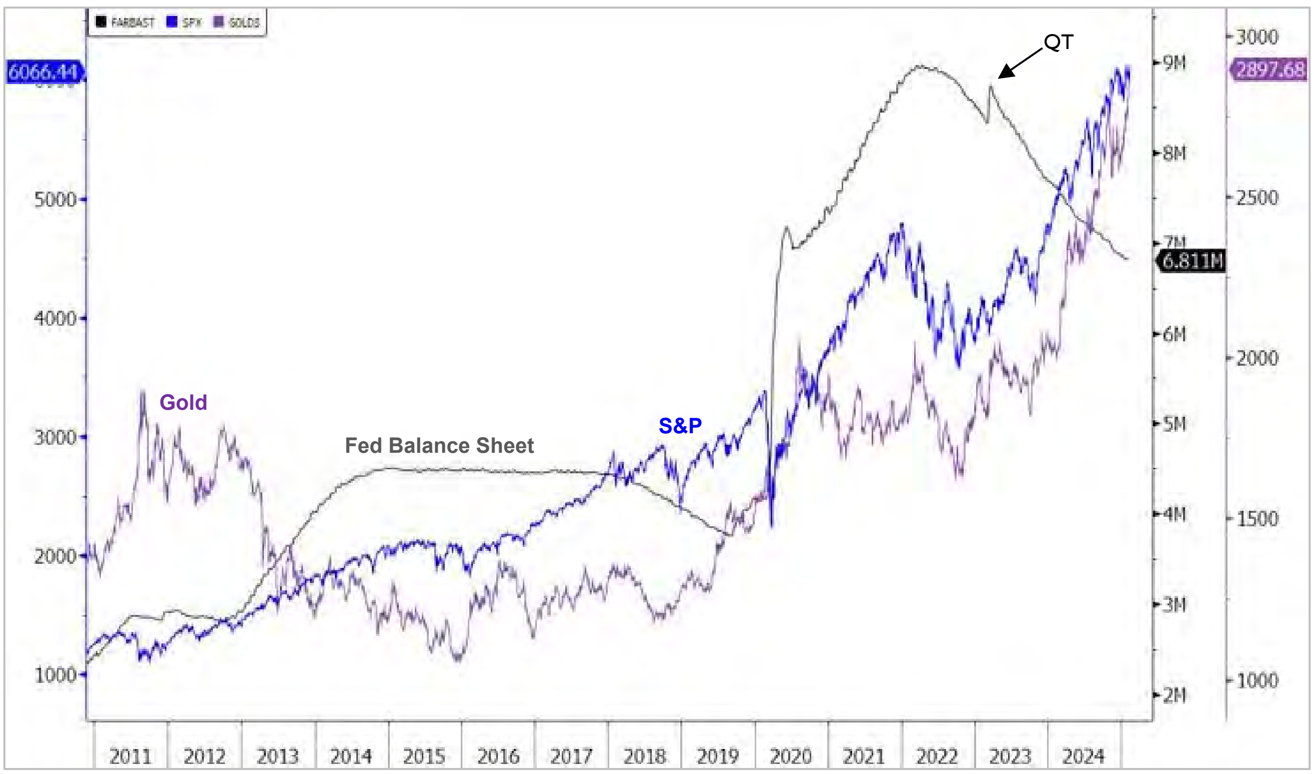
Courtesy of Bloomberg LP

10-Year Gov't Yields
Are Generational Yield Lows in Place?



Courtesy of Bloomberg LP

Fed Drives Liquidity / Liquidity Drives Markets
Fed Balance Sheet to Grow to 40% of GDP



Courtesy of Bloomberg LP

US DOLLAR—IS A HIGHER DOLLAR WHAT THE FED / TREASURY WANT? TRUMP / VANCE WANT? WILL A LOWER DOLLAR EVENTUALLY BE NEEDED TO INFLATE THE DEBT AWAY?

POLITICS

Is it in the US' interest to eventually devalue the Dollar? T-debt is 120% of GDP and growing at a rapid rate. Surprisingly, a rapid deterioration in the fiscal situation has not pressured the Dollar. Steps must be taken to either cut fiscal spending, inflate debt away, raise taxes, or grow the economy at a faster rate. Multiple policy steps are being taken by the new administration.

The issue now for the Dollar is how the US government funds itself over the next few years. Another energy crisis / second wave of inflation / a large war could be crippling. Many of the policy actions Trump is taking, will impact the Dollar. DOGE may be able to cut Federal spendings by $1 trillion or more. That could have a significant effect on the Dollar.

MONETARY/ECONOMIC FACTORS

- There may well be a limit as to how high interest rates can go. Around 3%-3.2% is the average yield at all Treasury maturities. Less than three year maturities rolling over are yielding 2.3% but are rolling into 4%-5% T-bills. Are the Fed / Treasury essentially implementing YCC? 22% of all new debt is being issued in T-bills, well above levels of two years ago.
- Is the Fed being pushed into interest rate cuts from a problem in the economy or political pressure? Or are cuts done to contain interest expense in 2025 and in years ahead?
- The Fed needs to be extra careful now about interest rate levels and the guidance they give, given the amount of debt the Treasury needs to sell and the cost of capital.

WHAT THE FED / GOVERNMENT WANT

A lower Dollar and a long period of stable rates is needed for the economy to grow at a pace which has the potential to outrun the nation's debt service and eases pressure for funding the budget deficit. That is the definition of yield curve control. Inflating the debt away which has accumulated in the last two-three years, which could become a priority. A Treasury issuance problem is emerging. "Wars", whether trade wars or military wars, which are multiplying tend to be inflationary. Judging from this recent language, the Fed is moving toward managing rates. A move away from QT and toward QE, then YCC seems the likely outcome for monetary policy. A proposal by ISDA to lower the margin in Treasury's will help the bond market by adding liquidity.

TARGETS

The major macro event of 2024 in the US was the national election. The major event in 2025 may be how the debt and deficit are handled as well as wholesale changes in tax policy, trade policy, de-regulation, fiscal policy, immigration – and more. The Dollar may be over-owned and on a PPP basis, overvalued. But relative to other world currencies, it backs the strongest profitable economy. Capital is flowing to the US.

An outside the box risk (a Dollar spike) is a liquidity / economic / financial problem coming from Europe, or a recession.

Has the Dollar fully priced Trump 2.0 and the numerous policy changes which are coming? Doubtful. The wild card may be wholesale changes in how the US government funds itself via tariffs and far fewer personal / corporate tax receipts.

UNITED STATES DATA

	Rate of Change	as of
US GDP Nominal Dollars YoY SA	2.50%	12/31/2024
PPI YoY	2.80%	12/31/2024
CPI YoY / inflation	2.90%	12/31/2024
U-3 Unemployment	4.00%	1/31/2025
U-6 Unemployment	7.50%	1/31/2025
M1 YoY	2.70%	12/31/2024
M2 YoY	3.90%	12/31/2024
Federal Funds Target Rate	4.50%	2/11/2025
ISM Non-Manufacturing NMI NSA	52.80%	1/31/2025
US Industrial Product MoM 2	0.92%	12/31/2024

Comparative Data to Other Major Currencies

Country	3 Mo Int Rates	10 yr Int Rates	Real Short Rates (Using 3-mo rates less CPI)	Real Long Rates (Using 10-Yr Govt Bonds less CPI)
Australia	4.28%	4.43%	1.88%	2.03%
Canada	2.85%	3.10%	1.05%	1.30%
Euro	2.45%	2.43%	-0.05%	-0.07%
Japan	0.30%	1.32%	-3.30%	-2.28%
Switzerland	-0.75%	0.415%	-1.35%	-0.19%
US	4.32%	4.54%	1.42%	1.64%
UK	4.40%	4.51%	1.90%	2.01%

Country	GDP	CPI	PPI	Unemployment
Australia	2.30%	7.00%	5.20%	3.57%
Canada	0.00%	1.80%	7.61%	6.60%
Euro	0.90%	2.50%	0.40%	6.30%
France	0.00%	1.40%	-3.80%	7.10%
Germany	-0.20%	2.30%	0.80%	6.20%
Japan	0.50%	3.60%	3.80%	2.40%
Switzerland	1.70%	0.60%	-0.10%	2.70%
US	2.30%	2.90%	2.80%	4.00%
UK	0.90%	2.50%	0.00%	4.40%

as of 2/11/2025

Sources:
Bloomberg Data
Bloomberg News

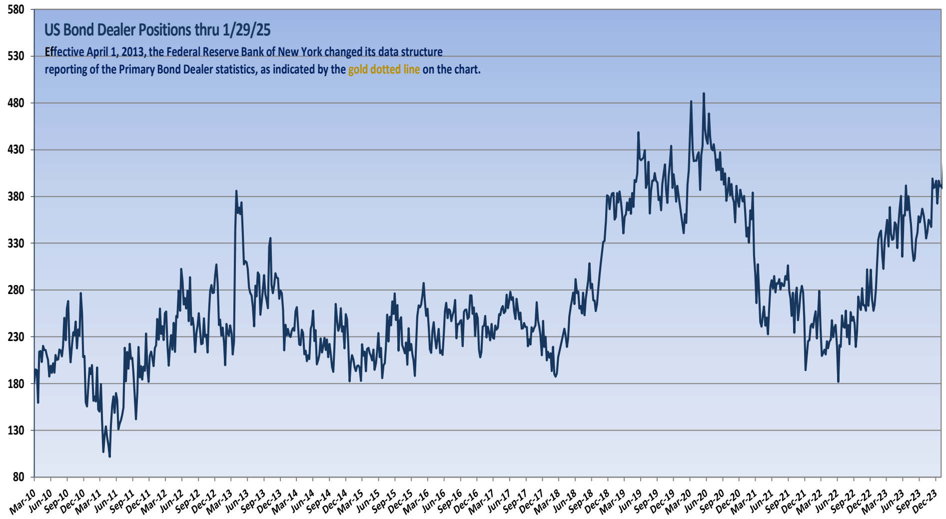
US Credit Cycle

▶ How will the Fed and the new government deal with a record amount of debt, which has been run up by US consumers, corporations and the government, much of it accumulated since 1994? Consumer credit is spiking and is well over $1 trillion. "Market" interest rates are rising while the Fed cuts. There are also significant unfunded Federal liabilities, perhaps as high as $50 trillion or more. Many categories of US debt, EM debt and global debt, are also at new highs and seem likely to go higher. The Total World Debt to GDP ratio is around 320% - 340%. If we include state / local debt as well as contingent liabilities, this ratio could be well above 500%.

Inflating that debt away may be the only viable, long-term alternative, unless a path toward lower budget deficits / government liabilities and growth is established. The Biden administration tried to inflate the debt away. The Trump administration is going to try and grow its way out of debt. Another possibility is to revalue gold in Dollar terms, which would put gold prices much higher. A third option may be a massive debt for equity swap. This would be the most innovative choice.

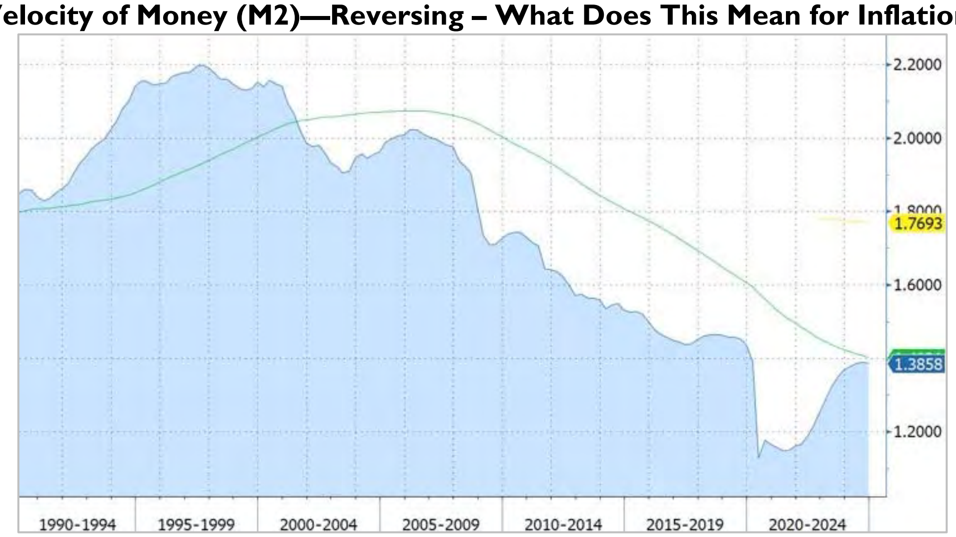
Financing Federal debt liabilities and entitlements are major issues for Treasury bonds. All depends on the price and availability of credit!

US Government Bond Dealers Inventory–Buyers Needed



Source data: Bloomberg LP

Velocity of Money (M2)—Reversing – What Does This Mean for Inflation?



Source data: Bloomberg LP

Key Components Of The Bond Model—CPI/PPI

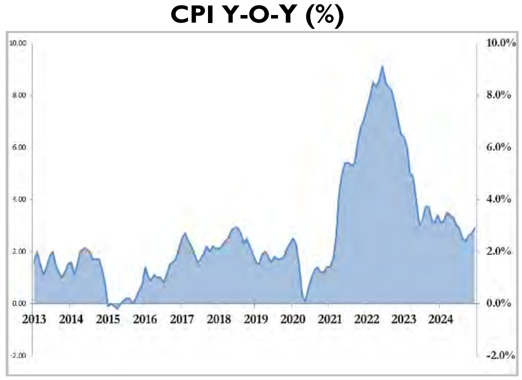
▶The year-over-year measure of CPI is +2.9% in December, while PPI stood at 2.8% in December. Room for a short term overshoot on the downside in CPI is likely coming to a close, putting in the bottom for inflation given the scale of overspending DOGE is disclosing. However, if an "event" occurs which is deflationary, i.e. large scale cuts in Federal spending, the entire inflationary narrative could disappear. The other path opening up is a major price decline in energy – which the "drill baby drill" policy intends to do along with new avenues for oil imports.

America's demographic / immigration situation presents a long term problem for the US employment and wage pictures. Baby boomers who have retired in large numbers, are a key reason why companies are finding it hard to locate workers. The baby boomer retirement problem will go on for another five-six years but it is also a major problem in global economies. Trying to hire back older workers is becoming a new trend, but will have a limited life span if asset prices continue to rise. The S&P 500 at 6,000 made a lot of 401k millionaires. Do they need to go back to work if stocks continue to rise?

If AI proves to be a job killer and efficiency booster, would the power of the unions and their wage demands be curtailed? There is no question AI / robotics will increasingly be used in manufacturing, insurance, and legal industries. What if mass adoption of AI occurs in the service sector? Is the major impact of AI, a productivity growth rate of 3% plus and deflation? How does that not drive economic growth? What would that do for interest rates, profit margins, corporate profits, inflation and employment? Is an unpriced productivity improved / economic boom coming?

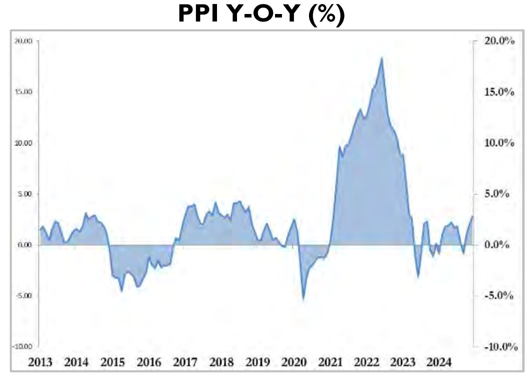
The Conference Board LEI number at -3.0% is signaling recession ahead, but so far that recession has failed to appear, thanks to massive government spending. The scale of that government spending is about to go in reverse. The current level of spending may be about to decline. The economy will be re-focused on the consumer and corporate spending (via lower taxes) in a Trump administration. US consumers have already been squeezed by declines in net wealth and real wages. Deregulation, DOGE and lower energy prices will help rein in inflation. Deregulating banks may well help expand buying power for Treasuries – which is needed.

CPI Y-O-Y (%)



Courtesy of Bloomberg L.P.

PPI Y-O-Y (%)



Courtesy of Bloomberg L.P.

Commodity Prices — Grains, Precious Metals, And Energy. All Still Too Low?

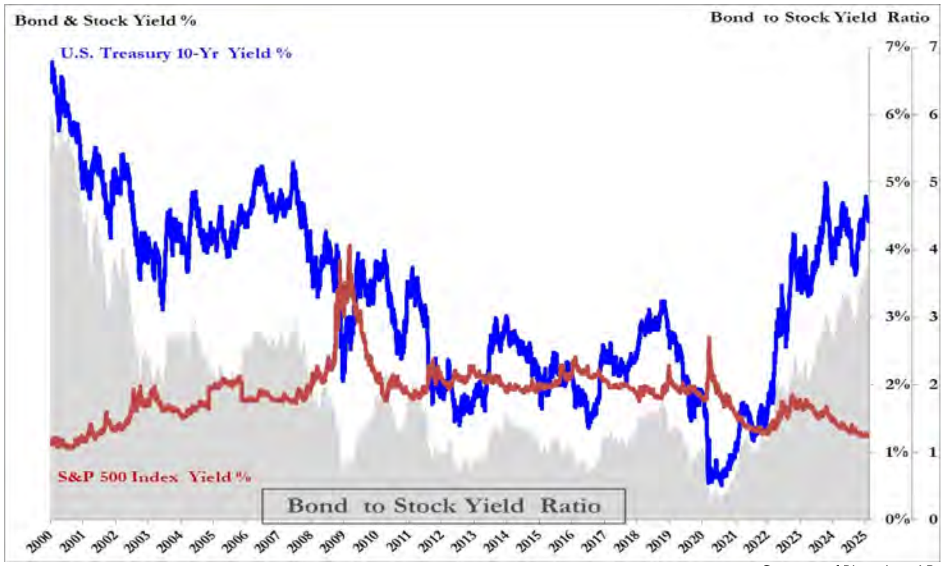
▶ Commodity bull markets tend to run in roughly 18–20-year cycles. The current bull phase for precious metals started in 2003, thus we think secular peak prices in precious metals will occur somewhere in the mid-late 2020s time frame. Agriculture prices should accelerate further over the next several years due to increased demand from developing markets, supply problems and a potentially significant change in weather related conditions across America. Corn prices are a key commodity to watch. Chinese demand, changes in weather patterns and the rising price of key inputs will force food production costs higher over time. Short term, global demand for protein should also increase, increasing demand for high protein food products. Finally, wars tend to be bullish for crop prices. The war cycles work we look at, is pointing toward additional conflicts on the horizon.

Global oil demand has hit new all-time highs and we think will continue to hit new highs. On the supply side, US oil production is still rising and is now 4-5 million bpd ahead of Saudi Arabia. Will "drill baby drill" bring oil prices down further? A release of additional Canadian exports of energy could help bring gasoline prices down. Meanwhile, the Saudis are looking to increase their market share by keeping the market well supplied. Will SA eventually add 1-2 million bpd to global oil supply in order to regain market share?

Stocks vs. Bonds

▶ Bonds began to outperform stocks on an extended basis in 2000-2001, when the bond to stock yield ratio fell sharply from 5.5:1 to 2:1. The US stock yield to bond yield ratio eventually traded at 1:1 in 2008. When this ratio reached 1:1 in Japan during the 1990s and 2000s, stocks rallied. Using this ratio also worked in timing the US equity market in Q1, 2009. With a dividend yield of about 1.43% on the S&P 500 and a roughly 4.6% rate on the 10-year T-bond, 10-Year Government Bond yields are at a much more competitive level against US Stocks for the first time in years. But in terms of volatility, they are now "higher vol" than gold. Is bond vol suppression on the way? Can SPX withstand a 5% yield on the 10-year T-bond?

US Bond Yield vs. US Stock Yield



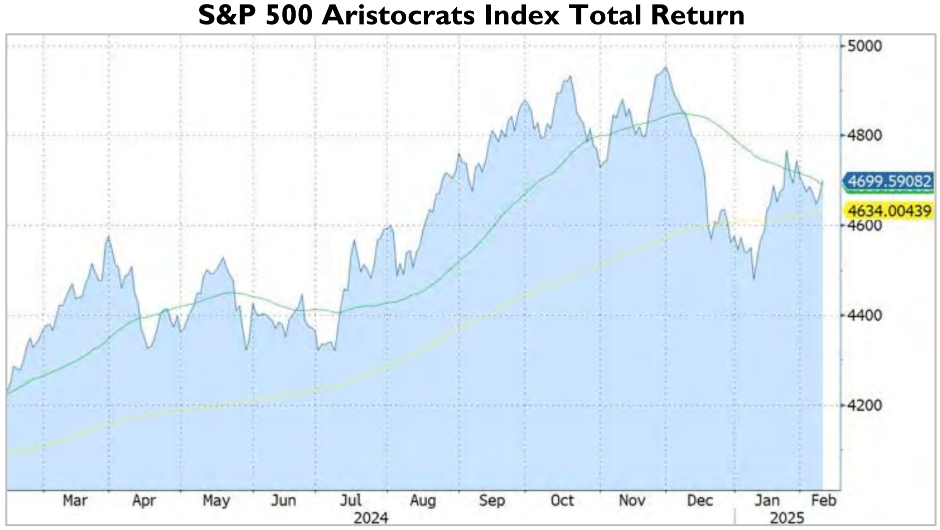
Courtesy of Bloomberg LP

Assets that generate income were market favorites in recent years due to the relatively low rate of interest available on short-term bonds / cash and negative yields in the developed world bond markets. The era of free money is over. If rates fall due to a recession over the next 12-18 months, bonds may perform better than stocks – for a while. But a recession does not seem to be in Trump's playbook. Growth is his goal.

Demographics

▶An aging Japan, China, Europe, and Russia along with retiring baby boomers in the States, all need income producing vehicles, as do pension funds and insurance companies. Real estate is having a renaissance in Switzerland as pension funds and insurance companies are happy with 2%-3% yields. The global search for yield goes on as demographics in almost all large, developing countries will over time, move investors toward income related vehicles. As a result, equity-oriented and alternative income-producing assets continue to have a built-in investment constituency vs. the use of sovereign debt. Quality stocks, with good dividend yields and a history of dividend increases (the Aristocrats) still offer an attractive total return alternative to bonds. Over time, we also expect sovereign funds to add to their use of alternative assets and equities, slowing demand for government bonds. Bond yields across the world (ex-China) are reaching more interesting levels for asset allocators.

S&P 500 Aristocrats Index Total Return



Courtesy of Bloomberg LP

Bond Allocations In 401(k)'s Still Low Relative To Stocks

▶Alternatives are needed vs. bonds, but the temptation for benefit plan sponsors is to immunize their liabilities when medium / long term nominal yields exceed 3%-4%, which they do in many major markets. If yield curve control is enacted, and essentially it has been in the US, and nominal long rates are set near 4% to 5%, there could be a rush for T-bonds – but so far that has not materialized.

Bond:Stock Allocations

Courtesy of Bloomberg LP

Overwhelming Bond Supply Ahead? Treasuries Need a Buyer

▶Treasuries will need new buyers, as the US government estimates it must raise $1-$2 trillion or more in new money every year over the next decade and possibly $7 trillion over the next 24 months. This may be all wrong, if DOGE is right. Over the next three years, around $15.5 trillion must be rolled over with an average yield of 2.3% now and that average is rising. The government's interest expense bill estimate is near $1.7 trillion in 2025 if interest rates are stable and $1.3 trillion of rates fall 150 bps. Something must be done and quickly to bring rates down. There are potentially more bond buyers around, but mostly on the shorter end of the Treasury yield curve. The Yellen Treasury continued to push additional bond issuance into the short end of the yield curve. Will this change in the new Treasury?

US Long-Term Portfolio Capital Flows

This Is America's Achilles Heel –
Foreign Net Purchases US Securities

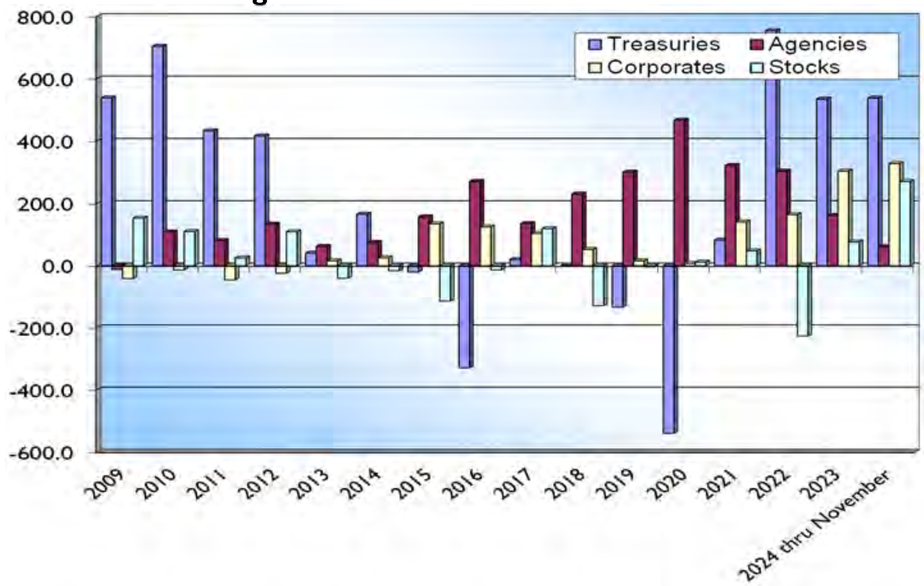
Foreign Net Purchases of US Securities *(billions of U.S. dollars, not seasonally adjusted)*															Foreigners Selling Treasuries
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 thru November
Treasuries	538.4	703.7	432.6	416.4	40.9	165.5	-20.3	-329.7	20.0	1.7	-134.6	-540.0	82.2	754.0	534.3	537.7
Agencies	-11.5	108.0	80.9	133.0	62.1	74.6	156.7	270.3	135.1	230.1	300.1	466.8	321.5	303.6	161.1	61.2
Corporates	-40.8	-13.2	-45.2	-24.1	15.6	25.3	134.1	124.4	103.3	52.0	15.4	7.5	140.5	163.9	303.6	327.3
Stocks	152.7	109.7	25.1	108.8	-40.2	-16.1	-114.9	-13.6	118.9	-129.8	-3.5	11.6	47.8	-226.8	75.9	270.0
Total	**638.9**	**908.3**	**493.4**	**634.1**	**78.3**	**249.3**	**155.6**	**51.4**	**377.3**	**153.9**	**177.4**	**-54.1**	**592.0**	**994.7**	**1,074.8**	**1,196.1**

Data Source: Bloomberg LP

Middle Eastern sovereign funds are re-allocating capital geographically toward Asian based buyers of crude oil (their customers, i.e. the petro Yuan) and away from the US. Middle Easterners and other BRICS which could turn into sellers of USD assets may have already done so on a meaningful scale. This could eventually spell trouble for the Treasury market. Global trade and capital flows may be moving toward the Mideast and Asia, as China and the US increasingly come into economic competition and the BRIC's related trade develops. China wants to pay for oil and other goods in Yuan. Increasingly that will happen along the Belt / Road. Estimates are that as much as 20% of global oil trade is now done in non-Dollar currencies. But on a global scale, will it work?

Another $2-$4 trillion increase in the Federal debt looks very possible over the next 2-3 years, on top of the current total government debt of $35 trillion. If the BOJ's experience is helpful (they own approximately 33% of all JGBs) and the BOJ's balance sheet is above 100% of GDP, the Fed would have to buy roughly another $1-$2 trillion in Treasuries to reach just 33% of the total Treasury debt level. QE, YCC or some hybrid policy must be on the way.

Foreign & Net Purchases of US Securities



Data Source: Bloomberg LP

For the first time in years, gold's volatility is lower than the volatility of Treasury bonds. This may become crucial for asset allocation in the future and influence demand for sovereign bonds.

Are commodities and assets other than bonds the new wave of "good" collateral – if not a potential backing for some currencies? Collateral and what constitutes good collateral are key issues today for the global financial system, especially among Eastern countries which are large scale exporters or which have large import bills.

What will eventually back fiat currencies – Commodities, or baskets of commodities or is the world headed to a digital currency future? Is that the next major phase in the development of the monetary system, a semi-hard assets backed system in the East and a fiat system moving toward digital coins in the Western world? Or is the system moving toward a different fiscal system – which will drive monetary policy in a different direction? Are cryptocurrencies part of the monetary system's future?

All Federal Reserve Banks Securities Held Outright

The Fed's Liquidity Program in Action

Source data: Bloomberg LP

Demand/Supply

▶ Of particular interest on the demand side for bonds are the trends in money fund assets. Money fund assets are about $7 trillion now and rising as deposits are leaving banks for money market funds and short term Treasuries. This is becoming a problem for banks, especially small and community banks, which are fighting to keep deposits while dealing with falling commercial real estate values. M&A activity in small / mid-sized banks is likely to accelerate.

A form of UBI has started in America via extra unemployment benefits, the childcare tax credit and new programs which appeared in the expanded infrastructure bill, the IRA bill and refunds of state surpluses. Individual cities are also implementing starter UBI programs with minimum income payments. The Inflation Reduction Act and "Chips" is the beginning of a national Industrial policy. The CHIPS Act may be trimmed by the new administration. It was followed by the Debt Ceiling Bill which suspended the limit on outstanding US government debt. These programs will require a significant amount of new Treasury issuance as well as refunding trillions of Dollars of T-debt over the next three years. For now, the Fed's inflation fight is over, but inflation has not been killed off. The fight to manage interest rate levels and avoid a T-bond crisis (poor auctions) has begun.

US Personal Savings Rate as a % of Disposable Income

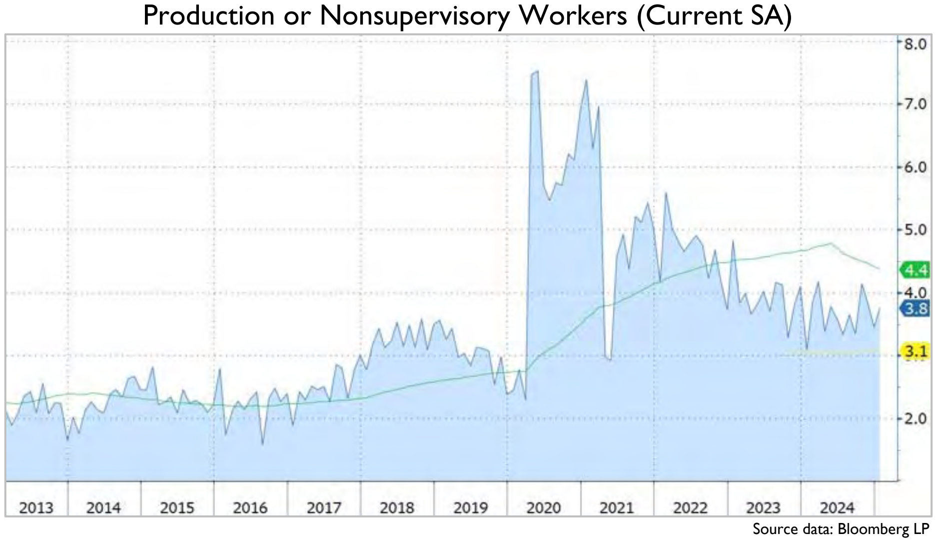
Courtesy of Bloomberg

Inflation or Deflation?

▶ Several traditional yield curve / economic indicators are signaling recession. Most of the data suggests the US economy is OK. It is future bond supply which remains the bigger issue.

US Real Weekly Earnings Y-O-Y

Production or Nonsupervisory Workers (Current SA)

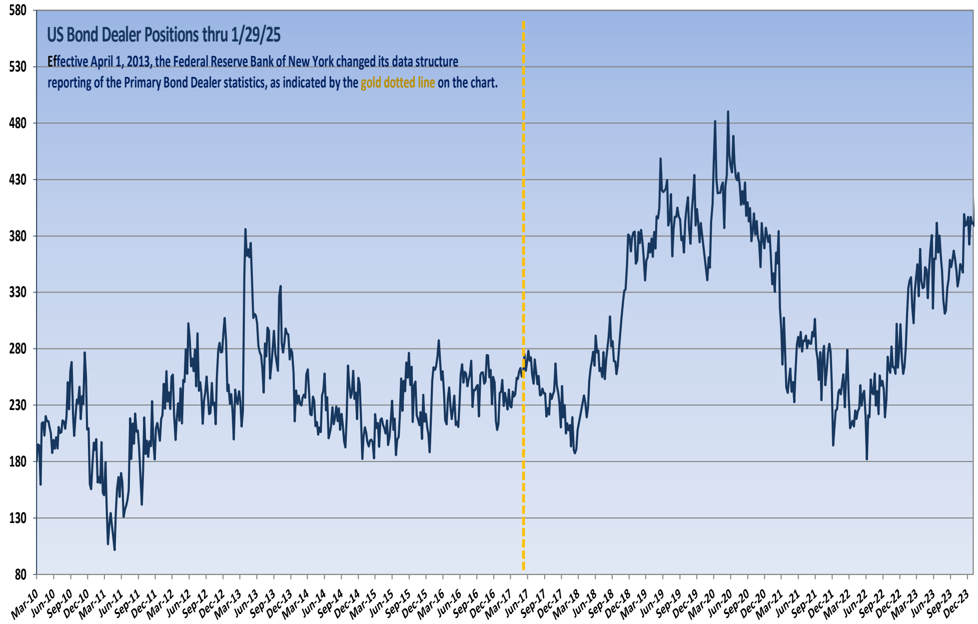


Source data: Bloomberg LP

Is the US About To Go on A Hyper Credit Cycle? Is the Credit Cycle About To Accelerate In Order to Inflate Away US Debt?

▶ How will the Fed, the government and consumers eventually deal with a record amount of debt, which has been run up by US consumers, corporations and the government, much of it accumulated since 1994? In the recent Presidential debates, this was almost never mentioned. Consumer credit is spiking and is well over $1 trillion. There are also significant unfunded Federal liabilities, perhaps as high as $50 trillion or more. Many categories of US debt, EM debt and global debt, are at new highs and seem likely to go higher. The Total World Debt to GDP ratio is around 320% - 340%. If we include state / local debt as well as contingent liabilities, this ratio could be well above 500%. Global debt / GDP has surged above 300% since 2008. Inflating that debt away may be the only viable, long-term alternative, unless a re-negotiation of Treasuries and government debt around the world takes place, entitlement liabilities are reformed, and a path toward lower budget deficits / government liabilities is established. Another possibility is to revalue gold in Dollar terms, which would put gold prices much higher. America's fiscal situation will be a Top 3 topic in 2025.

US Government Bond Dealers Inventory–Buyers Needed

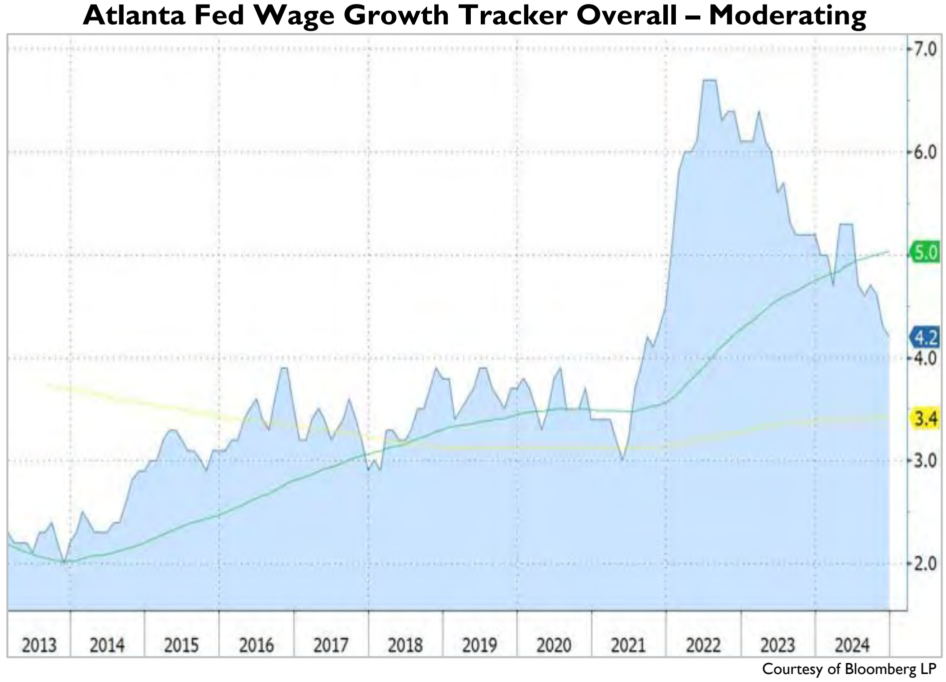


Source: Bloomberg LP

Inflation

▶ Shadowstats has the actual CPI figure near 10% while the reported number is running around 3%.

Atlanta Fed Wage Growth Tracker Overall – Moderating



Courtesy of Bloomberg LP

According to this week's calculations, the implied inflation rate for a 10-year bond is 2.1%.

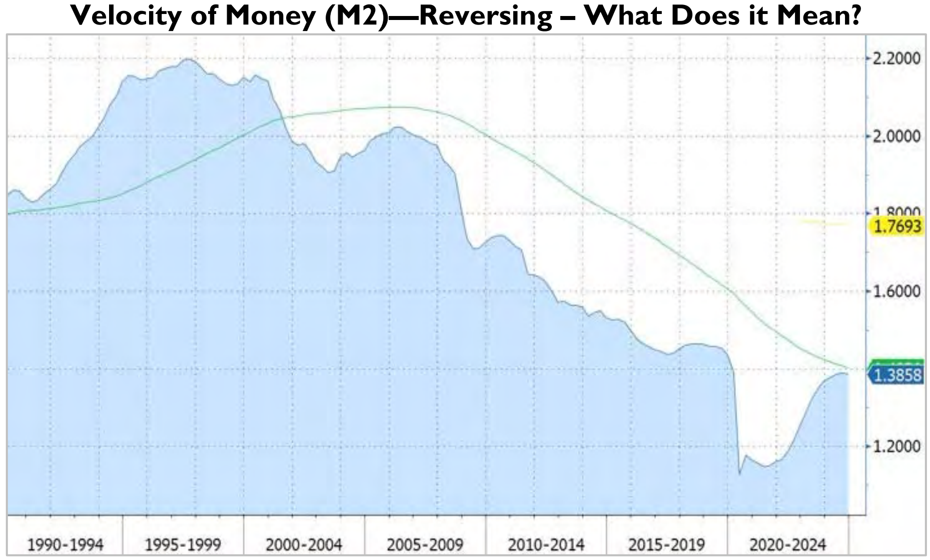
US Inflation Expectations and 10-Year Interest Rate Spread

Courtesy of Bloomberg

Liquidity and Money Supply

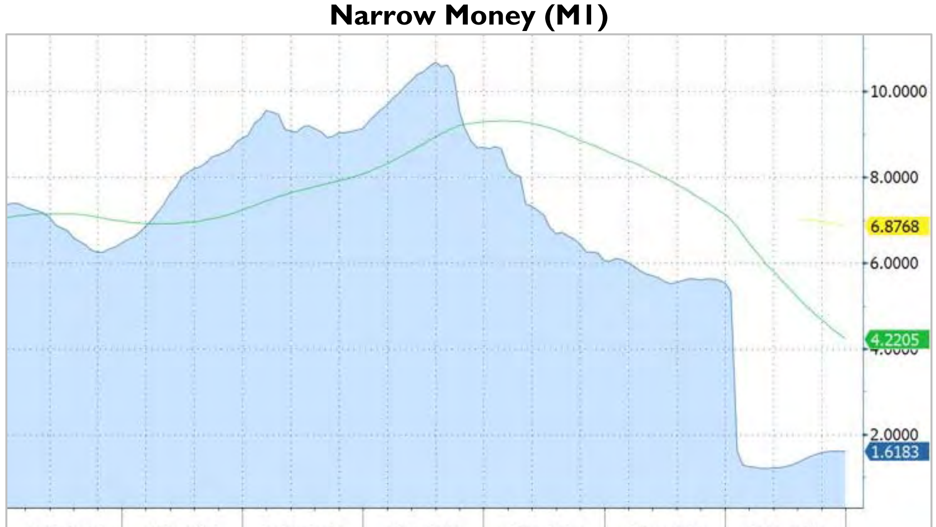
▶ The money supply numbers are running counter to an inflationary narrative and have been for many months. Only very recently has velocity turned up – powered by hiring hundreds of thousands of government employees – which may be reversed by DOGE?

Velocity of Money (M2)—Reversing – What Does it Mean?



Courtesy of Bloomberg LP

Narrow Money (M1)



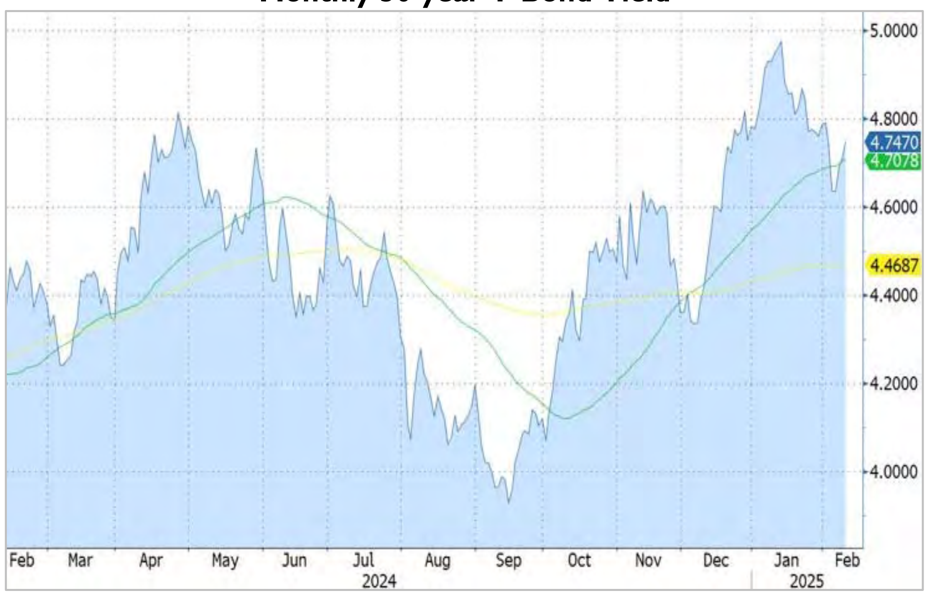
Courtesy of Bloomberg LP

Summary

▶ The Treasury and Fed will increasingly face a choice – save the Dollar and let long bond rates find their own level or fix rates (YCC) and depreciate the Dollar. Moving the Supplemental Leverage Ratio to a zero weighting for Treasuries, which has been requested by ISDA, would bring additional liquidity to Treasuries and the banking system. Releasing banks from regulatory limits on owning Treasuries is another possibility. The new administration is discussing ways to streamline bank regulation, all of which should bring additional demand into Treasuries.

Is a modest QE about to begin? QT will stop as the reverse repo operation runs down. After multiple Fed rate cuts, the 10-year Treasury is already up 100bps. The President wants that changed and for yields to come down. Look for Treasury to develop mechanisms / policies to bring rates down. On the short end of the yield curve, T-bills are raising more of the government spending requirement (22% plus of the auctions now), up from the mid-teens. Can Treasury extend those maturities?

Monthly 30-year T-Bond Yield



Source: The Institutional View

Data courtesy of:
- Barrons 2/10/2025
- Bloomberg Data
- Bloomberg News
- Board of Governors of the Federal Reserve System
- Investor's Business Daily
- Thechartstore.com
- The Institutional View. November 7, 2024
- US Treasury. https://home.treasury.gov/

US Long Bond Model (Price)—Intermediate Trend Indicator is Neutral

		As of 2/10/2025		As of 1/5/2025	
Comm Px and Inflation					
1)	Economist (All Items Index) % change y-o-y	- 9.8%	+	- 4.4%	+
2)	CRB (All Commodities)	536.07	0	536.07	0
3)	PCE—One-Year Momentum	+2.8%	0	+2.8%	0
4)	Gold ($/ounce)	$2,640.00	–	$2,640.00	–
5)	Crude Oil (WTI) ($/bbl)	$73.96	0	$73.96	0
6)	Atlanta Fed GDPNow GDP Forecast	+2.9%	+	+2.7%	+
7)	Atlanta Fed Wage Growth Tracker Overall	+ 4.2%	–	+ 4.3%	–
Fed Policy					
9)	Two-Year/10 Yr (bps)	+33 bps	0	+33 bps	0
10)	Broad Money Growth M-2 (y-o-y) weekly	3.9	+	3.7	+
11)	Foreign Holdings (U.S. Debt/y-o-y)	-2.4	–	-4.0	–
12)	Narrow Money Growth M-1 (y-o-y) weekly	2.7%	+	2.2%	+
Budget & Fiscal Policy & Fundamentals					
13)	Deficit/Surplus Trend	Negative	– –	Negative	– –
14)	Tax Policy	Negative	– –	Negative	– –
15)	Dollar (DXY)	108.95	+	108.95	+
16)	Dealers Inventories	Positive	+	Positive	+
Global Rates (Long Rates)					
17)	Japan		0		0
18)	ECU		+		+
Sentiment					
19)	Market Vane Sentiment (Bulls)	67%	–	69%	–
20)	MACD	Positive	+	Positive	+
21)	Stochastics	Positive	++	Positive	++
Bond Total					
	Positive		8		8
	Neutral		5		5
	Negative		8		8
22)	Ten-Year T-Bond Yield	4.59%		4.59%	
23)	Three-Month T-Bill Yield	4.23%		4.23%	

Source Data:

Barron's (2/10/2025) — 11), 16), 19)
Bloomberg — 2), 5), 6), 9), 13), 15), 17), 18), 20), 21)
Economist (2/6/2025) — 1), 3), 4), 7), 8), 10), 12)

Short-Term Model - is Negative as of 2/10/2025
Intermediate Term - Negative

		As of 2/10/2025	Rating	
Rate of Change				
1)	52-Week Rate of Change, S&P, year-over-year	+24.7%	– –	
2)	52-Week Rate of Change, 90- Day T-Bills, year-over-year	-5bps	+	
3)	52-Week Rate of Change, 10-Year T-Bonds, year-over-year	+39bps	–	
Supply				
4)	IPO/Secondaries	Neutral	0	
5)	Insider Sell/Buy Ratio	Negative	– –	
Demand				
6)	Stock Buybacks/M & A	Positive	++	
7)	Accumulation/Distribution Net (S&P 500)	B-	+	
8)	Short Interest Ratio	4.02x	+	
Valuation				
9)	S&P 500 P/E (Forecast)	19.8x	–	
10)	EPS S&P500 Qtrly Positive Surprises	Positive	+	
11)	S&P 500 Dividend Yield	1.43%	–	
Fundamentals				
12)	CPI + S&P P/E (Forecast)	22.6x	–	
13)	Monetary Phase	Positive	++	
14)	Dollar Directional	Negative	–	
15)	Earnings QOQ Trend	Positive	++	
16)	P/E Compression/Expansion	Neutral	0	
17)	Liquidity (Credit & Money Supply)	Positive	+	
18)	Credit Spreads/EMBI/Corporate/TED/Yield Curve	Positive	0	
19)	GDP Forecast	Positive	+	
Technical/Sentiment				
20)	Market Vane (Bulls)	67%	–	
21)	Put/Call Ratio	0.50	– –	
22)	Percent Stocks Above 200-Day Moving Average	50.3%	0	
23)	Stochastics (S&P)	Positive	+	
24)	MACD (S&P)	Negative	– –	
25)	VIX/Curve	Negative	–	
26)	Cycles	Neutral	0	
27)	Bitcoin	Positive	+	
Bond Model			0	
Net Technical - Short Term			-5.0%	
Total Score		**15 Positives**	**4 Neutral**	**18 Negative**

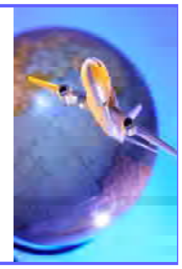
All indicators have a possible rating range of -14

Data* Sources*:

Barron's 2/10/2025– *21), Jan*
Bloomberg – 1), 2), 3), 4), 11), 12), 13), 14), 18), 19), 20), 23), 26) 27)
Investor's Business Daily 2/10/2025 – *5), 7), 8), 9), 10), 24), 25)*

LARRY'S TRAVEL/SPEAKING SCHEDULE

February 1-28 ________________________ *Europe*
March 18-19 ________________________ *NYC*



A Long Love Story

A Brazilian couple whose wedding was in 1940 officially took the Guinness World Record for the longest marriage for a living couple.

Manoel Angelim Dino, 105, and Maria de Sousa Dino, 101, were awarded the title when Guinness World Records and LongeviQuest, a website that tracks data about centenarians and super-centenarians, verified they had been married for 84 years and 77 days as of Valentine's Day.

The duo met in 1936 and were married at the chapel of Boa Ventura in Ceará, Brazil, in 1940.

The couple raised 13 children, and now have 55 grandchildren, 54 great-grandchildren and 12 great-great-grandchildren.

Too Much Chocolate

An opossum was treated at a Nebraska animal hospital after wandering into a family's back yard and gorging itself on an entire chocolate mousse cake from Costco.

Kim Doggett said the cake had been placed on a table in her Gretna back yard because she ran out of room in the fridge.

"I always have a house full and we cook a lot and when you run out of room in the fridge you just sit it on the table outside in the winter," Doggett told Forbes.

She said her son took some fresh-made peanut butter balls outside to cool and discovered an opossum was curled up on the outdoor sectional, which was covered in chocolate paw prints.

"The cake had been knocked off the table and was sitting on the floor in front of where she was," Doggett told the Omaha World-Herald. "The cover was off, and it was almost gone."

The opossum was not moving, and appeared to be panting.

"The opossum looked a little distressed," she said. "We thought we better call the Humane Society and get this guy checked out."

Doggett said she couldn't find any information online on whether chocolate is dangerous to opossums, but she knew the treat was toxic to dogs, so she figured it was better to be safe than sorry.

Veterinarians treated the opossum with activated charcoal to neutralize any potential toxicity from the chocolate. She was also found to have a high level of lead, likely from eating local insects.

The opossum is now being treated for the lead in her system and will be released in a few weeks, rehab officials said.

"With some time in rehab (and a diet reset), this choco-holic should be stabilized enough to return to the wild but until then, she is definitely a little cranky about our strict 'zero chocolate' policy," the rehab said on social media.

Unusual Delay

On February 11, A Ryanair flight bound for Germany was grounded for two days in Rome after a stowaway cat was found to have climbed into the plane's electrical bay.

The Boeing 737 had been scheduled to take passengers to Germany, but the flight was delayed when crew members heard meowing coming from the plane's inner workings.

Engineers discovered the cat was in the vehicle's electrical bay, and their attempts to reach the feline only caused it to flee further into the mechanism.

The plane was grounded, with engineers raising fears that the cat could cause potentially catastrophic damage while in the air.

A door was left open and the cat finally exited the plane on its own after about two days on the tarmac allowing the plane to finally depart for Germany.

Fish Bounty

On February 11, 2024,"A seafood company that lost about 27,000 salmon from a fish farm off the coast of Norway is offering a bounty of about $45 per fugitive fish caught.

Mowi, the world's largest producer of farmed salmon, said about a quarter of its 105,000 salmon escaped Sunday night from a fish farm in Troms and entered the waters of northwest Norway.

The company said the fence separating the farm from open waters was damaged by stormy weather in the area.

The company called on registered fishing professionals in the country to bring any of the fugitive salmon caught to designated "reception centers," where they will be paid about $45 per fish.

A 'Sticky' Situation

California Highway Patrol officers were left playing "a giant game of pick-up sticks" when a truck spilled its load of chopsticks onto the highway.

The CHP's Hayward station that officers responded to a report of a traffic hazard on Interstate 580, near the Redwood Road exit, and arrived to find the "sticky situation."

"Turns out, someone turned the freeway into a giant game of pick-up sticks," the post said. "Unfortunately, this means a local restaurant might be short on utensils tonight."

The CHP said the spill should serve as a reminder to all highway travelers to make sure their loads are properly secured.

Think you're a genius? Take the below quiz. Passing requires 4 correct answers.

1. How long did the Hundred Years War last?

2. Which country makes Panama hats?

3. From which animal do we get cat-gut?

4. In which month do Russians celebrate the October Revolution?

5. What is a camel's hair brush made of?

6. The Canary Islands in the Pacific are named after what animal?

7. What was King George VI's first name?

8. What color is a purple finch?

9. Where are Chinese gooseberries from?

* * * * * * * * * * *

All done, genius? Check your answers below.

1. How long did the Hundred Years War last? 116 years

2. Which country makes Panama hats? Ecuador

3. From which animal do we get cat gut? Sheep and Horses

4. In which month do Russians celebrate the October revolution? November

5. What is a camel's hair brush made of? Squirrel fur

6. The Canary Islands in the Pacific are named after what animal? Dogs

7. What was King George VI's first name? Albert.

8. What color is a purple finch? Crimson.

9. Where are Chinese gooseberries from? New Zealand.

A Big Surprise

Authorities are investigating the origins of a mysterious huge chunk of ice, six feet tall by more than three feet wide, that fell out of the sky and punched a large hole in the metal roof of a Florida home. Residents said it sounded like an explosion.

The Palm Coast Fire Department said that crews responded when a caller "reported multiple pieces of ice scattered across the roadway, with one striking a neighbor's home."

The Palm Coast Building Department inspected the damage and determined the house was safe to occupy.

The fire department said the Federal Aviation Administration was notified of the incident.

Little Over Due

A book found in a hallway outside of a British library was due back at the facility 49 years and six months earlier.

The Torrington Library in Devon, England, that a copy of *The Boy and the River* by Henri Bosco was found by a volunteer in a hallway just outside of the library.

"Thank you to whoever left this slightly overdue library book outside the library recently," the post said. "It was due back 23rd June 1975 and is older than some of our staff! I wonder where it has been for the last 49 years?"

Library supervisor Kate Cooper theorized the book may have been left in the hallway by a former patron who was worried about overdue fees.

"We don't fine for children's books anymore, but it would be about £3,600 [about $4,482]," she told the BBC. "We are obviously not expecting anyone to pay us that sort of money."

But Can You Taste It?

A Chinese chef took his noodle-making skills to the set of an Italian TV series and hand-rolled a noodle measuring only .18 millimeters -- about .007 inches thick.

Li Enhai attempted to break the Guinness World Record for the thinnest handmade noodle on the set of *Lo Show Dei Record* in Milan.

Enhai had held the record previously, but the title was taken by another chef who hand-rolled a .14-millimeter noodle.

Enhai successfully took the record with a noodle measuring just .18 millimeters thick.

Riddles

1. What do you get when you cross a rabbit with a spider? (A hare net.)

2. Why should you never tell a pig a secret? (Because he's a squealer.)

3. Did you hear about the exhausted kangaroo? (He was out of bounds.)

4. What do you get when you cross an alarm clock with a German Shepherd? (A watch dog.)

5. What happens when a frog is parked illegally? (It's toad away.)

6. How do you tune a fish? (You have to know the scale.)

7. What animal eats with its tail? (They all do. The can't take them off.)

8. What do a dog and the forest have in common? (There's a lot of bark in both.)

9. Is a dog better dressed in the summer or in the winter? (He's better dressed in the summer because in the winter he has a coat, but in the summer he has a coat and pants.)

10. What driver never gets arrested for speeding? (A screwdriver.)

11. What is the world's largest punctuation mark? (It's the hundred yard dash.)

12. What begins and ends with "e" but has only one letter? (An envelope.)

Sources: upi.com; Wit and Witticism

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THE INSTITUTIONAL STRATEGIST

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Larry is the Editor of *The Institutional Strategist,* and Founder of TIS Group of Minneapolis. He is an experienced investment management professional with over 40 years in the business. Mr. Jeddeloh founded TIS Group in 1995. Previously, Mr. Jeddeloh held the position of Chief Investment Officer of Resource Capital Advisers, with responsibilities for $1 billion in assets. Prior to joining Resource, he was with the Union Bank of Switzerland in Zürich, where he was a Vice Director and the Chief Investment Strategist in the Institutional Global Asset Management Group. In the 1980s, he was Director of Equity Research at the Leuthold Group, a well-known institutional research firm in Minneapolis, Minnesota, for seven years. He was also a partner of Leuthold and Anderson Investment Management Counseling and Weeden & Company, an institutional brokerage firm. Mr. Jeddeloh earned his Bachelor of Science in Finance and a Masters of Business Administration degree from University of St. Thomas in St. Paul, Minnesota. He has taught courses in investments and corporate finance at the University of Minnesota, the University of Northwestern St. Paul (formerly Northwestern College, MN), and Augsburg University (formerly Augsburg College, MN). Mr. Jeddeloh is a member of Chatham House, home of the Royal Institute of International Affairs. His work has been noted and used in various publications such as *The Wall Street Journal, Newsweek, Forbes, Money Magazine, Your Money, U.S. News & World Report, Barron's,* and *Global Finance.*

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